

I am filing AT&T's latest 10K because I believe many of the claims in other filings, including AT&T's are refuted by a reading of the AT&T SEC filings. In particular, I note that AT&T's capital expenditures dropped by \$3B from 2008 to 2009 and even in 2010 were still below 2008. That's a good explanation of their service problems.

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SEC Filings

10-K

AT&T INC. filed this Form 10-K on 03/01/11

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FORM 10-K

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

☒ x

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

☐ OR

..

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 1-8610

AT&T INC.

Incorporated under the laws of the State of Delaware

I.R.S. Employer Identification Number 43-1301883

208 S. Akard St., Dallas, Texas, 75202

Telephone Number 210-821-4105

Securities registered pursuant to Section 12(b) of the Act: (See attached Schedule A)

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Based on the closing price of \$24.19 per share on June 30, 2010, the aggregate market value of our voting and non-voting common stock held by non-affiliates was \$142.9 billion.

At January 31, 2011, common shares outstanding were 5,911,433,420.

DOCUMENTS INCORPORATED BY REFERENCE

(1)

Portions of AT&T Inc.'s Annual Report to Stockholders for the fiscal year ended December 31, 2010 (Parts I and II).

(2)

Portions of AT&T Inc.'s Notice of 2011 Annual Meeting and Proxy Statement dated on or about March 11, 2011 to be filed within the period permitted under General Instruction G(3) (Parts III and IV).

SCHEDULE A

Securities Registered Pursuant To Section 12(b) Of The Act:

Name of each exchange

Title of each class

on which registered

Common Shares (Par Value \$1.00 Per Share)

New York Stock Exchange

6.125% AT&T Inc.

New York Stock Exchange

Global Notes due April 2, 2015

5.875% AT&T Inc.

New York Stock Exchange
Global Notes due April 28, 2017

7.00% AT&T Inc.

New York Stock Exchange
Global Notes due April 30, 2040

6.375% AT&T Inc.

New York Stock Exchange
Senior Notes due February 15, 2056

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AT&T Inc.

PART I

ITEM 1. BUSINESS

GENERAL

AT&T Inc. ("AT&T," "we" or the "Company") is a holding company incorporated under the laws of the State of Delaware in 1983 and has its principal executive offices at 208 S. Akard St., Dallas, Texas, 75202 (telephone number 210-821-4105). We maintain an Internet website at www.att.com. (This website address is for information only and is not intended to be an active link or to incorporate any website information into this document.) We make available, free of charge, on our website our annual report on Form 10-K, our quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). We also make available on that website, and in print, if any stockholder or other person so requests, our code of business conduct and ethics entitled "Code of Ethics" applicable to all employees and Directors, our "Corporate Governance Guidelines," and the charters for all committees of our Board of Directors, including Audit, Human Resources and Corporate Governance and Nominating. Any changes to our Code of Ethics or waiver of our Code of Ethics for senior financial officers, executive officers or Directors will be posted on that website.

History

AT&T, formerly known as SBC Communications Inc. (SBC), was formed as one of several regional holding companies created to hold AT&T Corp.'s (ATTC) local telephone companies. On January 1, 1984, we were spun-off from ATTC pursuant to an anti-trust consent decree, becoming an independent publicly traded telecommunications services provider. At formation, we primarily operated in five southwestern states. Our subsidiaries merged with Pacific Telesis Group in 1997, Southern New England Telecommunications Corporation in 1998 and Ameritech Corporation in 1999, thereby expanding our wireline operations as the incumbent local exchange carrier (ILEC) into a total of 13 states. In November 2005, one of our subsidiaries merged with ATTC, creating one of the world's leading telecommunications providers. In connection with the merger, we changed the name of our company from 'SBC Communications Inc.' to 'AT&T Inc.' In December 2006, one of our subsidiaries merged with BellSouth Corporation (BellSouth) making us the ILEC in an additional nine states. With the BellSouth acquisition, we thereby acquired BellSouth's 40% economic interest in AT&T Mobility LLC (AT&T Mobility), formerly Cingular Wireless LLC, and BellSouth's 34% economic interest in YELLOWPAGES.COM (YPC), resulting in 100% ownership of AT&T Mobility and YPC. Our services and products are marketed under the AT&T brand name, including alliances such as AT&T Yahoo! and AT&T | DIRECT TV.

Scope

We are a leading providers of telecommunications services in the United States and the world. We offer our services and products to consumers in the U.S. and services and products to businesses and other providers of telecommunications services worldwide.

The services and products that we offer vary by market, and include: wireless communications, local exchange services, long-distance services, data/broadband and Internet services, video services, telecommunications equipment, managed networking, wholesale services and directory advertising and publishing. We group our operating subsidiaries as follows, corresponding to our operating segments for financial reporting purposes:

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wireless subsidiaries provide both wireless voice and data communications services across the U.S. and, through roaming agreements, in a substantial number of foreign countries.

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wireline subsidiaries provide primarily landline voice and data communication services, AT&T U-VerseSM TV, high-speed broadband and voice services (U-Verse) and managed networking to business customers.

.

advertising solutions subsidiaries publish Yellow and White Pages directories and sell directory advertising and Internet-based advertising and local search.

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other subsidiaries provide results from customer information services and all corporate and other operations.

Our local exchange subsidiaries operate as the ILEC in 22 states: Alabama, Arkansas, California, Connecticut, Illinois, Indiana, Florida, Georgia, Kentucky, Louisiana, Kansas, Michigan, Mississippi, Missouri, Nevada, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas and Wisconsin (22-state area). Our local exchange subsidiaries are subject to regulation by each state in which they operate and by the Federal Communications Commission (FCC). Wireless service providers are regulated by the FCC. Additional information relating to regulation is contained under the heading "Government Regulation" and in the Annual Report under the heading "Operating Environment and Trends of the Business," and is incorporated herein by reference pursuant to General Instruction G(2).

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AT&T Inc.

With the expansion of our company through acquisitions and the resulting ownership consolidation of AT&T Mobility, and with continuing advances in technology, our services offerings now combine our traditional wireline and wireless services. We make our customers' lives more convenient and productive and foster competition and further innovation in the communications and entertainment industry. In 2011, we plan to focus on the areas discussed below.

Wireless

AT&T Mobility began operations in October 2000 as a joint venture between us and BellSouth and, in 2004, acquired AT&T Wireless Services, Inc. Upon our acquisition of BellSouth in 2006, AT&T Mobility became a wholly-owned subsidiary.

We cover most major metropolitan areas of the U.S. with our Universal Mobile Telecommunications System/ High-Speed Downlink Packet Access (HSPA) and HSPA+ network technology, with HSPA+ providing 4G speeds when combined with our upgraded backhaul. Our network provides superior speeds for data and video services, as well as operating efficiencies, using the same spectrum and infrastructure for voice and data on an IP-based platform. Our wireless network also relies on digital

transmission technologies known as Global System for Mobile Communication, General Packet Radio Services and Enhanced Data Rates for GSM Evolution for data communications. We have also begun transitioning our network to more advanced Long-Term Evolution (LTE) technology. We continue to expand the number of locations, including airports and cafés, where customers can access broadband Internet connections using wireless fidelity (local radio frequency commonly referred as Wi-Fi) wireless technology.

As of December 31, 2010, we served 95.5 million wireless customers and were a leading provider of mobile wireless voice and data communications services in the U.S. As the wireless industry continues to mature, our future wireless growth will increasingly depend on our ability to offer integrated handsets and other innovative devices (such as tablets and eReaders) and innovative services that will encourage existing customers to upgrade their services and will attract customers from other providers, as well as on our ability to minimize turnover of our existing customer base (customer churn). We intend to accomplish these goals by continuing to expand our network coverage and improve our network quality and expand our mobile device offerings. Our ability to maintain and expand network service enhancements and product launches may not occur as scheduled or at the cost expected due to many factors, including delays in determining equipment and handset operating standards, supplier delays, increases in network equipment and handset component costs, regulatory permitting delays for tower sites or enhancements, or labor-related delays. The effective management of customer churn is critical to our ability to maximize revenue growth and to maintain and improve our operating margins.

Business Customers

We expect to continue to strengthen the reach and sophistication of our network facilities and our ability to offer a variety of communications services, both wireless and wireline, to large businesses and wholesale customers worldwide. We expect to offer similar services to small- and medium-businesses and to increase the attractiveness of our services to governmental customers. We also expect to extend our wholesale business offerings to other service products and systems integration services.

Data/Broadband

As the communications industry continues to move toward Internet-based technologies that are capable of blending traditional wireline and wireless services, we plan to offer services that take advantage of these new and more sophisticated technologies. In particular, we intend to continue to focus on deploying our AT&T U-verse sm high-speed broadband and video services and on developing Internet protocol-based services that allow customers to unite their home or business wireline services with their wireless service.

U-verse Services We are continuing to expand our deployment of U-verse High Speed Internet and

TV services. As of December 31, 2010, we have passed more than 27.3 million living units (constructed housing units as well as platted housing lots) and are marketing the services to almost 77 percent of those units. Our rate of expansion will be slowed if we cannot obtain all required local building permits in a timely fashion. We also continue to work with our vendors on improving, in a timely manner, the requisite hardware and software technology. Our deployment plans could be delayed if we do not receive required equipment and software on schedule.

We believe that our U-verse TV service is subject to federal oversight as a "video service" under the Federal Communications Act. However, some cable providers and municipalities have claimed that certain IP services should be treated as a traditional cable service and therefore subject to the applicable state and local cable regulation. Certain municipalities have delayed our request or have refused us permission to use our existing right-of-ways to deploy or activate our U-verse-related services and products, resulting in litigation. Pending negotiations and current or threatened litigation involving municipalities could delay our deployment plans in those areas. Petitions have been filed at the FCC alleging that the manner in which AT&T provisions "public, educational and governmental" (PEG) programming over its U-verse TV service conflicts with federal law, and a lawsuit has been filed in a California state superior court raising similar allegations under California law. If courts having jurisdiction where we have significant deployments of our U-verse services were to decide that federal, state and/or local cable regulation were applicable to our U-verse services, or if the FCC, state agencies or the courts were to rule that AT&T must deliver PEG programming in a manner substantially different from the way it does today or in ways that are inconsistent with AT&T's current network architecture, it could have a material adverse effect on the cost, timing and extent of our deployment plans.

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AT&T Inc.

Voice over Internet Protocol (VoIP) is generally used to describe the transmission of voice using Internet-Protocol-based technology rather than a traditional wire and switch-based telephone network. A company using this technology often can provide voice services at a lower cost because this technology uses bandwidth more efficiently than a traditional network and because this technology has not been subject to traditional telephone industry regulation. While the development of VoIP has resulted in increased competition for our wireless and wireline voice services, it also presents growth opportunities for us to develop new products for our customers.

BUSINESS OPERATIONS

OPERATING SEGMENTS

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. We analyze our various operating segments based on segment income before income taxes. We make our capital allocations decisions primarily based on the network (wireless or wireline) providing services. Actuarial gains and losses from pension and other postretirement benefits, interest expense and other income (expense) ? net, are managed only on a total company basis and are, accordingly, reflected only in consolidated results. Therefore, these items are not included in the calculation of each segment?s percentage of our total segment income. We have four reportable segments: (1) Wireless; (2) Wireline; (3) Advertising Solutions; and (4) Other.

Additional information about our segments, including financial information, is included under the heading ?Segment Results? on pages 33 through 40 and in Note 4 of the Annual Report and is incorporated herein by reference pursuant to General Instruction G(2).

WIRELESS

Wireless consists of our subsidiary, AT&T Mobility, which operates as a wireless provider to both business and consumer customers. Our Wireless segment provided approximately 47% of 2010 total segment operating revenues and 67% of our 2010 total segment income. At December 31, 2010, we had more than 95 million wireless subscribers. We classify our customers as either postpaid, prepaid, connected device or reseller.

Services and Products

We offer a comprehensive range of high-quality nationwide wireless voice and data communications services in a variety of pricing plans, including postpaid and prepaid service plans. Our offerings are tailored to meet the communications needs of targeted customer segments, including youth, family, active professionals, small businesses, government and major national corporate accounts.

Service ? Our voice service is generally offered on a contract basis for one- or two-year periods, referred to as postpaid. Under the terms of these contracts, service is billed and provided on a monthly basis according to the applicable rate plan chosen. Our wireless services include basic local wireless communications service, long-distance service and roaming services. Roaming services enable our subscribers to utilize other carriers? networks when they are ?roaming? outside our network footprint. We also charge fees to other carriers for providing roaming services to their customers when their customers utilize our network. We offer prepaid voice service to meet the demands of distinct consumer segments, such as the youth market, families and small business customers, who prefer to control usage or pay in advance.

Wireless data revenues continue to be a growing area of our business, representing an increasing share of our overall subscriber revenue. We are experiencing solid growth from both consumer and enterprise wireless data services, as an increasing number of our subscribers have upgraded their handsets to more advanced integrated devices. We are also seeing rapid growth in demand for new data-centric devices such as notebooks, tablets, eReaders, direction and navigation aids and monitoring devices. Customers in our "connected device" category (e.g., users of eReaders and navigation aids) purchase those devices from third-party suppliers which buy data access supported by our network. Other data-centric device users are classified as either postpaid customers (primarily netbook and notebook users) or prepaid customers (primarily tablet users) since they purchase service directly from us. We continue to upgrade our network and coordinate with equipment manufacturers and applications developers in order to further capitalize on the continued growth in the demand for wireless data services. As of December 31, 2010, we were a leading provider of wireless data in the U.S. wireless industry based on subscribers.

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AT&T Inc.

Equipment ? We sell a wide variety of handsets, wirelessly enabled computers (i.e., notebooks and tablets) and personal computer wireless data cards manufactured by various suppliers for use with our voice and data services. We sell through our own company-owned stores or through agents or third-party retail stores. We also sell accessories, such as carrying cases, hands-free devices, batteries, battery chargers and other items, to consumers, as well as to agents and other third-party distributors for resale. Like other wireless service providers, we often provide postpaid contract subscribers substantial equipment subsidies to initiate or upgrade service.

Additional information on our Wireless segment is contained in the Annual Report in the "Operating Environment Overview" section under the heading "Expected Growth Areas," "Wireless" beginning on page 42 and is incorporated herein by reference pursuant to General Instruction G(2).

WIRELINE

Our Wireline subsidiaries provide both retail and wholesale communication services domestically and internationally. Our Wireline segment provided approximately 49% of 2010 segment operating revenues and 34% of our 2010 total segment income. We divide our wireline services into three product-based categories: voice, data and other. Revenues from our traditional voice services have been declining as customers have been switching to wireless, cable and other Internet-based providers. In addition, the continuing weak economy has caused wireline customers to terminate their

residential or business phone service as individuals have lost jobs or otherwise combined households and businesses have closed or reduced operations. We have responded by offering packages of combined voice and data services, including broadband and video, and intend to continue this strategy during 2011.

Services and Products

Voice ? Voice includes traditional local and long-distance service provided to retail customers and wholesale access to our network and individual network elements provided to competitors. At December 31, 2010, our wireline subsidiaries served approximately 23 million retail consumer access lines, 19 million retail business access lines and 2 million wholesale access lines. We also have a number of integrated voice and data services, such as integrated network connections, that provide customers the ability to integrate access for their voice and data services, the data component of which is included in the data category. Additionally, voice revenues do not include any of our VoIP revenues, which are included in data revenues.

Long distance consists of traditional long distance and international long distance for customers that select us as their primary long-distance carrier. Long distance also includes services provided by calling card, 1-800 services and conference calling. These services are used in a wide variety of business applications, including sales, reservation centers or customer service centers. We also provide wholesale switched access service to other service providers.

Voice also includes calling features, fees to maintain wire located inside customer premises and other miscellaneous voice products. Calling features are enhanced telephone services available to retail customers such as Caller ID, Call Waiting and voice mail. These calling features services are generally more profitable than basic local phone service.

Data ? We provide data services that rely on IP-based technology and data services that rely on older, circuit-based technology. Approximately 70 percent of our data customers have transitioned from using our circuit-based services to using our IP-based services and we expect that trend to continue. We provide businesses voice applications over IP-based networks (i.e., Enhanced Virtual Private Networks or ?EVPN?). Over the past several years, we have built out our new multi-protocol label switching/asynchronous transfer mode, or MPLS/ATM network, to supplement, and eventually replace, our other extensive global networks. These products allow us to provide highly complex global data networks. Additional IP-based services include Internet access and network integration, dedicated Internet and enterprise networking services, U-verse services and related data equipment sales.

Our circuit-based, traditional data products include switched and dedicated transport that allow

business customers to transport data at high speeds, as well as DSL and dial-up Internet access. Our private line offering uses high-capacity digital circuits to transmit from point-to-point in multiple configurations and allows customers to create internal data networks and to access external data networks. Switched Transport services transmit data using switching equipment to transfer the data between multiple lines before reaching its destination. Dedicated Transport services use a single direct line to transmit data between destinations. DSL is a digital modem technology that converts existing twisted-pair telephone lines into access paths for multimedia and high-speed data communications to the Internet or private networks. DSL allows customers to simultaneously make a phone call and access information via the Internet or an office local area network. Digital Services use dedicated digital circuits to transmit digital data at various high rates of speed.

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Network integration services include installation of business data systems, local area networking and other data networking offerings. Internet access services include a wide range of products for residences and businesses including basic dial-up access service, dedicated access, web hosting, managed services, e-mail and high-speed access services. Our managed web-hosting services for businesses provide network, server and security infrastructure as well as built-in data storage and include application performance management, database management, hardware and operating system management. Our hosting services also provide customers with secure access to detailed reporting information about their infrastructure and applications.

Packet services consist of data networks using packet switching and transmission technologies, including traditional circuit-based, and IP connectivity services. Packet services enable customers to transmit large volumes of data economically and securely and are used for local area network interconnection, remote site, point of sale and branch office communications. High-speed packet services are used extensively by enterprise (large business) customers.

Enterprise networking services provide comprehensive support from network design, implementation and installation to ongoing network operations and management for networks of varying scales, including local area networks, wide area networks, and virtual private networks. These services include applications such as e-mail, order entry systems, employee directories, human resource transactions and other database applications.

We also offer Wi-Fi services (local radio frequency commonly known as wireless fidelity).

We provide local, interstate and international wholesale networking capacity to other service providers. We offer a combination of high-volume transmission capacity and conventional dedicated line services on a regional, national and international basis to wireless carriers, interexchange carriers, Internet service providers (ISPs) and facility-based and switchless resellers. Our wholesale customers are primarily large ISPs, wireless carriers, competitive local exchange carriers (CLECs), regional phone companies, interexchange carriers, cable companies and systems integrators. We also have sold dedicated network capacity through indefeasible rights-of-use agreements under which capacity is furnished for contract terms as long as 25 years.

Other ? Other includes application management, security service, integration services, customer premises equipment, outsourcing, government-related services, and satellite video services. Security services include business continuity and disaster recovery services as well as premise and network based security products.

Customer premises equipment and other equipment sales range from single-line and cordless telephones to sophisticated digital PBX systems. PBX is a private telephone switching system, typically used by businesses and usually located on a customer's premises, which provides intra-premise telephone services as well as access to our network.

ADVERTISING SOLUTIONS

Advertising Solutions includes our directory operations, which publish Yellow and White Pages directories and sell directory advertising and Internet-based advertising and local search. The Advertising Solutions segment provided approximately 3% of total segment operating revenues and 4% of our 2010 total segment income. This segment sells advertising services throughout the United States, with our print directory operations primarily covering our 22-state area.

OTHER

Our Other segment includes customer information services (i.e., operator services) and corporate and other operations, as well as impacts from corporate-wide decisions for which the individual operating segments are not being evaluated, including interest cost and expected return on pension and postretirement benefits. The Other segment provided approximately 1% of total segment operating revenues. In 2010, segment operating expense exceeded revenues. We also include in this segment the equity income (loss) from our investments in Telmex and America Movil. In August 2010, we sold Sterling Commerce Inc. (Sterling). The Other segment results for all periods shown have been adjusted to exclude the results of Sterling, which are now reflected in discontinued operations.

AT&T Inc.

MAJOR CLASSES OF SERVICE

The following table sets forth the percentage of total consolidated reported operating revenues by any class of service that accounted for 10% or more of our consolidated total operating revenues in any of the last three fiscal years:

Percentage of Total

Consolidated Operating Revenues

2010

2009

2008

Wireless Segment

Wireless service

43 % 40 % 36 %

Wireline Segment

Voice

23 % 26 % 30 %

Data

22 % 21 % 20 %

GOVERNMENT REGULATION

Wireless communications providers must be licensed by the FCC to provide communications services at specified spectrum frequencies within specified geographic areas and must comply with the rules and policies governing the use of the spectrum as adopted by the FCC. Wireless licenses are issued

for a fixed time period, typically ten years, and we must seek renewal of these licenses. While the FCC has generally renewed licenses given to operating companies such as us, the FCC has authority to both revoke a license for cause and to deny a license renewal if a renewal is not in the public interest. Additionally, while wireless communications providers' prices and service offerings are generally not subject to regulation, the federal government and an increasing number of states are considering new regulations and legislation relating to various aspects of wireless services.

Our wireline subsidiaries are subject to regulation by state commissions which have the power to regulate intrastate rates and services, including local, long-distance and network access services. These subsidiaries are also subject to the jurisdiction of the FCC with respect to interstate and international rates and services, including interstate access charges. Access charges are designed to compensate our wireline subsidiaries for the use of their networks by other carriers.

Our subsidiaries operating outside the U.S. are subject to the jurisdiction of national and supranational regulatory authorities in the market where service is provided. Regulation is generally limited to operational licensing authority for the provision of enterprise services.

Additional information relating to regulation of our subsidiaries is contained in the Annual Report under the heading "Operating Environment Overview" beginning on page 41 and is incorporated herein by reference pursuant to General Instruction G(2).

IMPORTANCE, DURATION AND EFFECT OF LICENSES

Certain of our subsidiaries own or have licenses to various patents, copyrights, trademarks and other intellectual property necessary to conduct business. Many of our subsidiaries also hold government-issued licenses or franchises to provide wireline or wireless services and regulation affecting those rights is contained in the Annual Report under the heading "Operating Environment Overview" beginning on page 41 and is incorporated herein by reference pursuant to General Instruction G(2). We actively pursue patents, trademarks and service marks to protect our intellectual property within the U.S. and abroad. We maintain a significant global portfolio of patents, trademarks and service mark registrations. We have also entered into agreements that permit other companies, in exchange for fees and subject to appropriate safeguards and restrictions, to utilize certain of our trademarks and service marks. We periodically receive offers from third parties to obtain licenses for patent and other intellectual rights in exchange for royalties or other payments. We also receive notices asserting that our products or services infringe on their patents and other intellectual property rights. These claims, whether against us directly or against third-party suppliers of products or services that we, in turn, sell to our customers, such as wireless handsets, could require us to pay damages, royalties, stop offering the relevant products or services and/or cease other activities. While the outcome of any litigation is uncertain, we do not believe that the resolution of any of these infringement claims or the

expiration or non-renewal of any of our intellectual property rights would have a material adverse effect on our results of operations.

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AT&T Inc.

MAJOR CUSTOMER

No customer accounted for 10% or more of our consolidated revenues in 2010, 2009 or 2008.

COMPETITION

Information relating to competition in each of our operating segments is contained in the Annual Report under the heading "Competition" beginning on page 43, and is incorporated herein by reference pursuant to General Instruction G(2).

RESEARCH AND DEVELOPMENT

AT&T Labs' scientists and engineers conduct research in a variety of areas, including IP; advanced network design and architecture; network operations support systems; data mining technologies and advanced speech technologies. The majority of the development activities are performed by AT&T Services. The developers within AT&T Services work with our business units and AT&T Labs to create new services and invent tools and systems to manage secure and reliable networks for us and our customers. We also have a research agreement with Telcordia Technologies, formerly Bell Communications Research, Inc. Research and development expenses were \$1,345 in 2010, \$986 in 2009 and \$832 million in 2008.

EMPLOYEES

As of January 31, 2011, we employed approximately 265,410 persons. Approximately 58 percent of our employees are represented by the Communications Workers of America (CWA), the International Brotherhood of Electrical Workers (IBEW) or other unions.

In February 2010, the Company and the Communications Workers of America (CWA) announced a tentative agreement covering approximately 30,000 core wireline employees in the nine-state former BellSouth region, subject to ratification by those covered employees. This agreement was ratified in March 2010. In September 2010, approximately 4,000 core wireline employees in the Company's east region also ratified a tentative agreement previously announced by the Company and the CWA. All core wireline employees are now covered by agreements reached since prior labor agreements expired during 2009.

At December 31, 2010, we had approximately 340,000 retirees who, along with their dependents, were eligible to receive retiree benefits.

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AT&T Inc.

ITEM 1A. RISK FACTORS

Information required by this Item is included in the Annual Report under the heading "Risk Factors" on pages 55 through 57 which is incorporated herein by reference pursuant to General Instruction G(2).

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

The following factors could cause our future results to differ materially from those expressed in the forward-looking statements:

.

Adverse economic and/or capital access changes in the markets served by us or in countries in which we have significant investments, including the impact on customer demand and our ability and our suppliers' ability to access financial markets.

.

Changes in available technology and the effects of such changes, including product substitutions and deployment costs.

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Increases in our benefit plans? costs, including increases due to adverse changes in the U.S. and foreign securities markets, resulting in worse-than-assumed investment returns and discount rates and adverse medical cost trends and unfavorable healthcare legislation and regulations.

.

The final outcome of Federal Communications Commission and other federal agency proceedings and reopenings of such proceedings and judicial review, if any, of such proceedings, including issues relating to access charges, broadband deployment, E911 services, competition, net neutrality, unbundled loop and transport elements, wireless license awards and renewals and wireless services.

.

The final outcome of regulatory proceedings in the states in which we operate and reopenings of such proceedings and judicial review, if any, of such proceedings, including proceedings relating to Interconnection terms, access charges, universal service, unbundled network elements and resale and wholesale rates, broadband deployment including our U-verse services, net neutrality, performance measurement plans, service standards and traffic compensation.

.

Enactment of additional state, federal and/or foreign regulatory and tax laws and regulations pertaining to our subsidiaries and foreign investments, including laws and regulations that reduce our incentive to invest in our networks, resulting in lower revenue growth and/or higher operating costs.

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Our ability to absorb revenue losses caused by increasing competition, including offerings that use alternative technologies (e.g., cable, wireless and VoIP) and our ability to maintain capital expenditures.

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The extent of competition and the resulting pressure on customer and access line totals and wireline and wireless operating margins.

.

Our ability to develop attractive and profitable product/service offerings to offset increasing competition in our wireless and wireline markets.

.

The ability of our competitors to offer product/service offerings at lower prices due to lower cost structures and regulatory and legislative actions adverse to us, including state regulatory proceedings

relating to unbundled network elements and nonregulation of comparable alternative technologies (e.g., VoIP).

.

The timing, extent and cost of deployment of our U-verse services; the development of attractive and profitable service offerings; the extent to which regulatory, franchise fees and build-out requirements apply to this initiative; and the availability, cost and/or reliability of the various technologies and/or content required to provide such offerings.

.

Our continued ability to attract and offer a diverse portfolio of devices, some on an exclusive basis.

.

The availability and cost of additional wireless spectrum and regulations relating to licensing and technical standards and deployment and usage, including network management rules.

.

Our ability to manage growth in wireless data services, including network quality.

.

The outcome of pending or threatened litigation, including patent and product safety claims by or against third parties.

.

The impact on our networks and business from major equipment failures, our inability to obtain handsets, equipment/software or have handsets, equipment/software serviced in a timely and cost-effective manner from suppliers, severe weather conditions, natural disasters, pandemics, energy shortages, wars or terrorist attacks.

.

The issuance by the Financial Accounting Standards Board or other accounting oversight bodies of new accounting standards or changes to existing standards.

.

The issuance by the Internal Revenue Service and/or state tax authorities of new tax regulations or changes to existing standards and actions by federal, state or local tax agencies and judicial authorities with respect to applying applicable tax laws and regulations and the resolution of disputes with any taxing jurisdictions.

.

Our ability to adequately fund our wireless operations, including payment for additional spectrum; network upgrades and technological advancements.

Changes in our corporate strategies, such as changing network requirements or acquisitions and dispositions, which may require significant amounts of cash or stock, to respond to competition and regulatory, legislative and technological developments.

Readers are cautioned that other factors discussed in this report, although not enumerated here, also could materially affect our future earnings.

8

AT&T Inc.

ITEM 2. PROPERTIES

Our properties do not lend themselves to description by character and location of principal units. At December 31, 2010, approximately 83% of our property, plant and equipment was owned by our wireline subsidiaries and approximately 17% was owned by our wireless subsidiaries. Central office equipment represented 33%; network access lines represented approximately 31% of our telephone plant; other equipment, comprised principally of furniture and office equipment and vehicles and other work equipment, represented 19%; land, building and communications towers represented 11%; and other miscellaneous property represented 6%.

Substantially all of the installations of central office equipment are located in buildings and on land we own. Many garages, administrative and business offices, and telephone centers and retail stores are in leased quarters.

ITEM 3. LEGAL PROCEEDINGS

We are a party to numerous lawsuits, regulatory proceedings and other matters arising in the ordinary course of business. Additional information regarding litigation is included in the Annual Report under the headings "Retiree Phone Concession Litigation", "NSA Litigation" and "Universal Service Fees Litigation" on pages 47 through 48, which is incorporated herein by reference pursuant to General Instruction G(2). As of the date of this report, we do not believe any pending legal proceedings to which we or our subsidiaries are subject are required to be disclosed as material legal proceedings

pursuant to this item.

We are subject from time to time to judicial and administrative proceedings brought by various governmental authorities under federal, state or local environmental laws. We are required to discuss one of these proceedings in our Forms 10-Q and 10-K, this proceeding is listed below because each could result in monetary sanctions (exclusive of interest and costs) of one hundred thousand dollars or more. However, we do not believe that any of them currently pending will have a material adverse effect on our results of operations.

(a) The U.S. Environmental Protection Agency (EPA) is seeking civil penalties from AT&T Mobility in connection with alleged violations of federal environmental statutes in connection with management of back-up power systems at AT&T Mobility facilities. The EPA's allegations include noncompliance with requirements to obtain air emission permits for generators and to prepare spill prevention plans for fuel storage tanks. We expect to settle those allegations on terms that would include civil penalties in the range of \$1 to \$3 million dollars.

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AT&T Inc.

EXECUTIVE OFFICERS OF THE REGISTRANT
(As of January 18 , 2011)

Name

Age

Position

Held Since

Randall L. Stephenson

50

Chairman of the Board, Chief Executive Officer
and President

6/2007

William A. Blase Jr.

55

Senior Executive Vice President ? Human Resources

6/2007

James W. Cicconi

58

Senior Executive Vice President ? External and Legislative Affairs, AT&T Services, Inc.

11/2008

Catherine M. Coughlin

53

Senior Executive Vice President and Global Marketing Officer

6/2007

Ralph de la Vega

59

President and Chief Executive Officer, AT&T Mobility and Consumer Markets

10/2008

Richard G. Lindner

56

Senior Executive Vice President and Chief Financial Officer

5/2004

Forrest E. Miller

58

Group President ? Corporate Strategy and Development

6/2007

John T. Stankey

48

President and Chief Executive Officer, AT&T Business Solutions

9/2010

Wayne Watts

57

Senior Executive Vice President and General Counsel

6/2007

Rayford Wilkins, Jr.

59

Chief Executive Officer ? AT&T Diversified Businesses

10/2008

All of the above executive officers have held high-level managerial positions with AT&T or its subsidiaries for more than the past five years. Executive officers are not appointed to a fixed term of office.

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AT&T Inc.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange. The number of stockholders of record as of December 31, 2010 and 2009 was 1,372,019 and 1,454,030. The number of stockholders of record as of February 18, 2011, was 1,363,473. We declared dividends, on a quarterly basis, totaling \$1.69 per share in 2010 and \$1.65 per share in 2009.

Other information required by this Item is included in the Annual Report under the headings "Quarterly Financial Information" on page 95, "Selected Financial and Operating Data" on page 30, and "Stock Trading Information" on the back cover, which are incorporated herein by reference pursuant to General Instruction G(2).

ITEM 6. SELECTED FINANCIAL DATA

Information required by this Item is included in the Annual Report under the heading "Selected Financial and Operating Data" on page 30, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Information required by this Item is included in the Annual Report on pages 31 through 58, which is

incorporated herein by reference pursuant to General Instruction G(2).

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item is included in the Annual Report under the heading "Market Risk" on pages 52 through 53, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this Item is included in the Annual Report on pages 59 through 95, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During our two most recent fiscal years, there has been no change in the independent accountant engaged as the principal accountant to audit our financial statements and the independent accountant has not expressed reliance on other independent accountants in its reports during such time period.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The registrant maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by the registrant is recorded, processed, summarized, accumulated and communicated to its management, including its principal executive and principal financial officers, to allow timely decisions regarding required disclosure, and reported within the time periods specified in the SEC's rules and forms. The Chief Executive Officer and Chief Financial Officer have performed an evaluation of the effectiveness of the design and operation of the registrant's disclosure controls and procedures as of December 31, 2010. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the registrant's disclosure controls and procedures were effective as of December 31, 2010.

AT&T Inc.

Internal Control Over Financial Reporting

(a) Management's Annual Report on Internal Control over Financial Reporting

The management of AT&T is responsible for establishing and maintaining adequate internal control over financial reporting. AT&T's internal control system was designed to provide reasonable assurance as to the integrity and reliability of the published financial statements. AT&T management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2010. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control ? Integrated Framework. Based on its assessment, AT&T management believes that, as of December 31, 2010, the Company's internal control over financial reporting is effective based on those criteria.

(b) Attestation Report of the Registered Public Accounting Firm

The registered public accounting firm that audited the financial statements included in the Annual Report containing the disclosure required by this Item, Ernst & Young LLP, has issued an attestation report on the Company's internal control over financial reporting. The attestation report issued by Ernst & Young LLP is included in the Annual Report on page 98, which is incorporated herein by reference pursuant to General Instruction G(2).

ITEM 9B. OTHER INFORMATION

There is no information that was required to be disclosed in a report on Form 8-K during the fourth quarter of 2010 but was not reported.

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AT&T Inc.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding executive officers required by Item 401 of Regulation S-K is furnished in a separate disclosure at the end of Part I of this report since the registrant did not furnish such information in its definitive proxy statement prepared in accordance with Schedule 14A. Information regarding directors required by Item 401 of Regulation S-K is incorporated herein by reference pursuant to General Instruction G(3) from the registrant's definitive proxy statement, dated on or about March 11, 2011 (Proxy Statement) under the heading "Election of Directors."

Information required by Item 405 of Regulation S-K is incorporated herein by reference pursuant to General Instruction G(3) from the registrant's Proxy Statement under the heading "Section 16(a) Beneficial Ownership Reporting Compliance."

The registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The members of the committee are Messrs. Chico, Kelly and Madonna and Ms. Tyson. The additional information required by Item 407(d)(5) of Regulation S-K is incorporated herein by reference pursuant to General Instruction G(3) from the registrant's Proxy Statement under the heading "Audit Committee."

The registrant has adopted a code of ethics entitled "Code of Ethics" that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer, or controller or persons performing similar functions. The additional information required by Item 406 of Regulation S-K is provided in this report under the heading "General" under Part I, Item 1. Business.

ITEM 11. EXECUTIVE COMPENSATION

Information required by Item 402(k) of Regulation S-K is incorporated herein by reference pursuant to General Instruction G(3) from the registrant's Proxy Statement under the heading "Compensation of Directors." Information regarding officers is included in the registrant's Proxy Statement on the pages beginning with the heading "Compensation Discussion and Analysis" and ending with, and including, the pages under the heading "Potential Payments upon Termination or Change in Control" which are incorporated herein by reference pursuant to General Instruction G(3). Information required by Item 407(e)(5) of Regulation S-K is included in the registrant's Proxy Statement under the heading "Compensation Committee Report" and is incorporated herein by reference pursuant to General Instruction G(3) and shall be deemed furnished in this Annual Report on Form 10-K and will not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

AT&T Inc.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by Item 403 of Regulation S-K is included in the registrant's Proxy Statement under the heading "Common Stock Ownership," which is incorporated herein by reference pursuant to General Instruction G(3).

Information required by Item 201(d) of Regulation S-K is incorporated herein by reference pursuant to General Instruction G(3) from the registrant's Proxy Statement under the heading "Equity Compensation Plan Information."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by Item 404 of Regulation S-K is included in the registrant's Proxy Statement under the heading "Related Person Transactions," which is incorporated herein by reference pursuant to General Instruction G(3). Information required by Item 407(a) of Regulation S-K is included in the registrant's Proxy Statement under the heading "Independence of Directors," which is incorporated herein by reference pursuant to General Instruction G(3).

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item is included in the registrant's Proxy Statement under the heading "Principal Accountant Fees and Services," which is incorporated herein by reference pursuant to General Instruction G(3).

Part IV

ITEM 15. EXHIBITS and FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as a part of the report:

Page

(1) Report of Independent Registered Public Accounting Firm

*

Financial Statements covered by Report of Independent Registered Public Accounting Firm:

Consolidated Statements of Income

*

Consolidated Balance Sheets

*

Consolidated Statements of Cash Flows

*

Consolidated Statements of Changes in Stockholders' Equity

*

Notes to Consolidated Financial Statements

*

*

Incorporated herein by reference to the appropriate portions of the registrant's Annual Report to Stockholders for the fiscal year ended December 31, 2010. (See Part II.)

Page

(2) Financial Statement Schedules:

II - Valuation and Qualifying Accounts

Financial statement schedules other than those listed above have been omitted because the required information is contained in the financial statements and notes thereto, or because such schedules are not required or applicable.

(3) Exhibits:

Exhibits identified in parentheses below, on file with the SEC, are incorporated herein by reference as exhibits hereto. Unless otherwise indicated, all exhibits so incorporated are from File No. 1-8610.

Exhibit
Number

3-a

Restated Certificate of Incorporation, filed with the Secretary of State of Delaware on May 1, 2009.
(Exhibit 3 to Form 10-Q filed for June 30, 2009.)

3-b

Bylaws amended December 18, 2009. (Exhibit 3 to Form 8-K dated December 18, 2009.)

AT&T Inc.

4-a

Certificate of Designations for Perpetual Cumulative Preferred Stock of SBC Communications Inc., filed with the Secretary of State of the State of Delaware on November 18, 2005. (Contained in Restated Certificate of Incorporation filed as Exhibit 3-a.)

4-b

No instrument which defines the rights of holders of long-term debt of the registrant and all of its consolidated subsidiaries is filed herewith pursuant to Regulation S-K, Item 601b)(4)(iii)(A), except for the instruments referred to in 4-c, 4-d, 4-e, 4-f, 4-g, 4-h and 4-i below. Pursuant to this regulation, the registrant hereby agrees to furnish a copy of any such instrument not filed herewith to the SEC upon request.

4-c

Guaranty of certain obligations of Pacific Bell Telephone Co. and SBC Communications Inc. (Exhibit 4-c to Form 10-K for 2007.)

4-d

Guaranty of certain obligations of Ameritech Capital Funding Corp., Illinois Bell Telephone Co., Indiana Bell Telephone Co. Inc., Michigan Bell Telephone Co., The Ohio Bell Telephone Co., Pacific Bell Telephone Co., Southern New England Telecommunications Corp., The Southern New England Telephone Co., Southwestern Bell Telephone Co., Wisconsin Bell, Inc. (Exhibit 4-c to Form 10-Q for September 30, 2005.)

4-e

Guarantee of certain obligations of AT&T Corp. (Exhibit 4-e to Form 8-K dated December 16, 2005.)

4-f

Guarantee of certain obligations of BellSouth. (Exhibit 4.3 to Form 8-K dated December 29, 2006.)

4-g

Cingular Third Supplemental Indenture. (Exhibit 4.1 to Form 8-K dated December 29, 2006.)

4-h

Indenture dated as of November 1, 1994 between SBC Communications Inc. and The Bank of New York, as Trustee. (Exhibit 4-h to Form 10-K for 2008.)

4-i

Registration Rights Agreement. (Exhibit 4.3 to Form 8-K dated September 2, 2010.)

10-a

Short Term Incentive Plan, dated November 18, 2005. (Exhibit 10-a to Form 10-K for 2008.)

10-b

Supplemental Life Insurance Plan, amended and restated effective January 1, 2010. (Exhibit 10-d to Form 10-Q filed for June 30, 2009.)

10-c

Supplemental Retirement Income Plan, amended and restated December 31, 2008. (Exhibit 10-c to Form 10-K for 2008.)

10-d

Senior Management Deferred Compensation Plan (effective for Units of Participation Having a Unit Start Date Prior to January 1, 1988). (Exhibit 10-d to Form 10-K for 2008.)

10-e

Senior Management Deferred Compensation Program of 1988 (effective for Units of Participation Having a Unit Start Date of January 1, 1988 or later). (Exhibit 10-e to Form 10-K for 2008.)

10-f

Officer Disability Plan, amended and restated effective January 1, 2010. (Exhibit 10-i to Form 10-Q filed for June 30, 2009.)

10-g

Salary and Incentive Award Deferral Plan, dated December 31, 2004. (Exhibit 10-g to Form 10-K for 2006.)

10-h

AT&T Inc. Health Plan, amended and restated effective January 1, 2011.

10-i

Retirement Plan for Non-Employee Directors. (Exhibit 10-i to Form 10-K for 2007.)

10-j

Form of Indemnity Agreement, effective July 1, 1986, between SBC (now AT&T Inc.) and its directors and officers. (Exhibit 10-j to Form 10-K for 2007.)

10-k

Administrative Plan, amended and restated effective January 1, 2011.

15

AT&T Inc.

10-l

Stock Savings Plan, dated December 31, 2004. (Exhibit 10-l to Form 10-K for 2006.)

10-m

Pacific Telesis Group Supplemental Cash Balance Plan, amended as of July 1, 1996. (Exhibit 10-III to Form 10-K for 2007.)

10-n

1996 Stock and Incentive Plan, dated November 2, 2002. (Exhibit 10-n to Form 10-K for 2008.)

10-o

Non-Employee Director Stock and Deferral Plan, amended and restated June 26, 2008. (Exhibit 10-f to Form 10-Q filed for June 30, 2008.)

10-p

Pacific Telesis Group Deferred Compensation Plan for Nonemployee Directors. (Exhibit 10-p to Form 10-K for 2007.)

10-p(i)

Resolutions amending the Plan, effective November 21, 1997. (Exhibit 10-p(i) to Form 10-K for 2007.)

10-q

Pacific Telesis Group Outside Directors? Deferred Stock Unit Plan. (Exhibit 10-q to Form 10-K for 2007.)

10-r

Pacific Telesis Group 1996 Directors' Deferred Compensation Plan. (Exhibit 10-r to Form 10-K for 2007.)

10-r(i) Resolutions amending the Plan, effective November 21, 1997. (Exhibit 10-r(i) to Form 10-K for 2007.)

10-s

Transition Agreement by and between BellSouth Corporation and Rafael de la Vega, dated December 29, 2003. (Exhibit 10-s to Form 10-K for 2007.)

10-t

2001 Incentive Plan, dated November 18, 2005. (Exhibit 10-t to Form 10-K for 2008.)

10-u

Pacific Telesis Group 1996 Executive Deferred Compensation Plan, amended November 20, 2008. (Exhibit 10-u to Form 10-K for 2008.)

10-v

AT&T Inc. Change in Control Severance Plan, amended and restated effective January 1, 2011.

10-w

1995 Management Stock Option Plan, dated November 16, 2001. (Exhibit 10-w to Form 10-K for 2008.)

10-x

Non-Employee Director Stock Purchase Plan, effective June 27, 2008. (Exhibit 10-e to Form 10-Q filed for June 30, 2008.)

10-y

Communications Concession Program for Directors, amended and restated November 2009. (Exhibit 10-y to Form 10-K for 2009.)

10-z

Pacific Telesis Group Executive Deferral Plan, amended November 20, 2008. (Exhibit 10-z to Form 10-K for 2008.)

10-aa

Four Year Credit Agreement dated December 20, 2010. (Exhibit 10-a to Form 8-K dated December 20, 2010.)

10-bb

Stock Purchase and Deferral Plan, amended and restated June 24, 2010. (Exhibit 10-b to Form 10-Q filed for June 30, 2010.)

10-cc

Cash Deferral Plan, amended and restated June 24, 2010. (Exhibit 10-a to Form 10-Q filed for June 30, 2010.)

10-dd

Master Trust Agreement for AT&T Inc. Deferred Compensation Plans and Other Executive Benefit Plans and subsequent amendments dated August 1, 1995 and November 1, 1999. (Exhibit 10-dd to Form 10-K for 2009.)

16

AT&T Inc.

10-ee

2005 Supplemental Employee Retirement Plan, amended and restated September 24, 2010. (Exhibit 10-a to Form 10-Q filed for September 30, 2010.)

10-ff

AT&T Corp. 1997 Long Term Incentive Program, dated March 14, 2000. (Exhibit 10-gg to Form 10-K for 2005.)

10-gg

AT&T Corp. 2004 Long Term Incentive Program. (Exhibit 10-hh to Form 10-K for 2005.)

10-hh

AT&T Corp. Executive Deferred Compensation Plan (formerly known as AT&T Corp. Senior Management Incentive Award Deferral Plan), amended and restated January 1, 2008. (Exhibit 10-hh to Form 10-K for 2008.)

10-ii

2006 Incentive Plan, amended and restated effective through January 28, 2010. (Exhibit 10-c to Form 10-Q filed for June 30, 2010.)

10-jj

Pension Benefit Makeup Plan #1, amended and restated December 31, 2010 ? 08.

10-kk

BellSouth Corporation Executive Incentive Award Deferral Plan, as amended and restated effective January 1, 2008. (Exhibit 10-kk to Form 10-K for 2007.)

10-ll

BellSouth Corporation Nonqualified Deferred Compensation Plan, dated January 1, 2005. (Exhibit 10-

II to Form 10-K for 2006.)

10-mm

BellSouth Officer Compensation Deferral Plan, amended January 1, 2005. (Exhibit 10-mm to Form 10-K for 2009.)

10-nn

BellSouth Corporation Deferred Compensation Plan for Non-Employee Directors, dated March 9, 1984. (Exhibit 10-nn to Form 10-K for 2006.)

10-oo

BellSouth Corporation Director's Compensation Deferral Plan, as amended and restated effective as of January 1, 2005. (Exhibit 10-a to Form 10-Q for September 30, 2007.)

10-pp

BellSouth Corporation Stock Plan, dated April 24, 1995. (Exhibit 10-pp to Form 10-K for 2006.)

10-qq

BellSouth Corporation Stock and Incentive Compensation Plan, as amended June 28, 2004. (Exhibit 10-qq for Form 10-K for 2009.)

10-qq(i)

First Amendment to the BellSouth Corporation Stock and Incentive Compensation Plan, dated September 26, 2005. (Exhibit 10ii to Form 10-Q for September 30, 2005 of BellSouth Corporation (File No. 1-8607).)

10-qq(ii)

Second Amendment to BellSouth Corporation Stock and Incentive Compensation Plan, effective June 26, 2008. (Exhibit 10-qq(ii) to Form 10-K for 2008.)

10-rr

Cingular Wireless Long Term Compensation Plan, amended and restated effective November 1, 2007. (Exhibit 10-rr to Form 10-K for 2007.)

10-ss

Master Trust Agreement for AT&T Corp. Deferred Compensation Plans and Other Executive Benefit Plans, effective January 13, 1994. (Exhibit 10-ss to Form 10-K for 2006.)

10-ss(i)

First Amendment to Master Trust Agreement, effective December 23, 1997. (Exhibit 10-ss(i) to Form 10-K for 2006.)

10-tt

BellSouth Corporation Non-Employee Director Non-Qualified Stock Option Terms and Conditions (for options granted under the BellSouth Corporation Stock and Incentive Compensation Plan). (Exhibit

10-tt to Form 10-K for 2009.)

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AT&T Inc.

10-uu

BellSouth Corporation Amended And Restated Trust Under Board Of Directors Benefit Plan(s), effective October 11, 2006. (Exhibit 10-u to Form 10-K for 2006.)

10-vv

BellSouth Non-Employee Directors Charitable Contribution Program, effective February 29, 1992. (Exhibit 10-vv to Form 10-K for 2006.)

10-vv(i)

First Amendment to the Non-Employee Directors Charitable Contribution Program, effective January 27, 1997. (Exhibit 10-vv(i) to Form 10-K for 2006.)

10-vv(ii)

Second Amendment to the Non-Employee Directors Charitable Contribution Program, effective February 25, 2002. (Exhibit 10-vv(ii) to Form 10-K for 2006.)

10-ww

AT&T Management Relocation Plan. (Exhibit 10-b to Form 10-Q for June 30, 2007.)

10-ww(i) Amendment to AT&T Management Relocation Plan, dated November 20, 2008. (Exhibit 10-ww to Form 10-Q filed for March 31, 2009.)

10-xx

AT&T Corp, Senior Management Long Term Disability and Survivor Protection Plan, amended December 31, 2008. (Exhibit 10-xx to Form 10-K for 2008.)

10-yy

Cingular Wireless Cash Deferral Plan, effective November 1, 2001. (Exhibit 10-yy to Form 10-K for 2007.)

10-zz

BellSouth Corporation Supplemental Executive Retirement Plan, amended and restated effective January 1, 2010. (Exhibit 10-g to Form 10-Q filed for June 30, 2009.)

10-aaa

BellSouth Supplemental Life Insurance Plan, amended and restated November 1, 2009. (Exhibit 10-aaa to Form 10-K for 2009.)

10-bbb

BellSouth Compensation Deferral Plan, as amended and restated effective January 1, 2005. (Exhibit 10-bbb to Form 10-K for 2007.)

10-ccc

Cingular Wireless BLS Executive Transition Benefit Plan. (Exhibit 10-ccc to Form 10-K for 2007.)

10-ddd

Cingular Wireless SBC Executive Transition Benefit Plan. (Exhibit 10-ddd to Form 10-K for 2007.)

10-eee

BellSouth Nonqualified Deferred Income Plan, as amended and restated effective January 1, 2005. (Exhibit 10-eee to Form 10-K for 2008.)

10-fff

AT&T Mobility 2005 Cash Deferral Plan. (Exhibit 10-fff to Form 10-K for 2007.)

10-ggg

AT&T Corp. Non-Qualified Pension Plan, as amended and restated effective December 31, 2008. (Exhibit 10-ggg to Form 10-K for 2008.)

10-hhh

AT&T Corp. Excess Benefit and Compensation Plan, as amended and restated effective December 31, 2008. (Exhibit 10-hhh to Form 10-K for 2008.)

10-iii

BellSouth Split-Dollar Life Insurance Plan, as amended December 31, 2008, and restated effective January 1, 2005. (Exhibit 10-iii to Form 10-K for 2008.)

10-jjj

Form of Non-Disclosure and Non-Solicitation Agreement. (Exhibit 10-jjj to Form 10-K for 2009.)

10-kkk

2011 Incentive Plan.

10-III

364 Day Credit Agreement dated December 20, 2010. (Exhibit 10-b to Form 8-K dated December 20, 2010.)

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Computation of Ratios of Earnings to Fixed Charges.

18

AT&T Inc.

13

Portions of AT&T's Annual Report to Stockholders for the fiscal year ended December 31, 2010. Only the information incorporated by reference into this Form 10-K is included in the exhibit.

18

Letter regarding change in accounting principles.

21

Subsidiaries of AT&T Inc.

23

Consent of Ernst & Young LLP, independent registered public accounting firm for AT&T.

24

Powers of Attorney.

31

Rule 13a-14(a)/15d-14(a) Certifications

31.1 Certification of Principal Executive Officer

31.2 Certification of Principal Financial Officer

32

Section 1350 Certification

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Supplemental Interim Financial Information.

101 XBRL Instance Document

We will furnish to stockholders upon request, and without charge, a copy of the Annual Report to Stockholders and the Proxy Statement, portions of which are incorporated by reference in the Form 10-K. We will furnish any other exhibit at cost.

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Schedule II - Sheet 1

AT&T INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Allowance for Doubtful Accounts

Dollars in Millions

COL. A

COL. B

COL. C

COL. D

COL. E

Additions

(1) (2) (3)

Balance at
Beginning of Period

Charged to Costs and Expenses (a)

Charged to Other
Accounts (b)

Acquisitions

Deductions (c)

Balance at End
of Period

Year 2010

\$ 1,202 1,334 (28) - 1,551 \$ 957

Year 2009

\$ 1,268 1,762 29 2 1,859 \$ 1,202

Year 2008

\$ 1,360 1,795 921 - 2,808 \$ 1,268

(a)

Excludes direct charges and credits to expense on the consolidated statements of income and reinvested earnings related to interexchange carrier receivables.

(b)

Includes amounts previously written off which were credited directly to this account when recovered and amounts related to long-distance carrier receivables which were billed by AT&T.

(c)

Amounts written off as uncollectible.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 28th day of February, 2011.

AT&T INC.

/s/ Richard G. Lindner
Richard G. Lindner
Senior Executive Vice President
and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Principal Executive Officer:
Randall Stephenson*
Chairman of the Board, Chief Executive Officer

and President

Principal Financial and Accounting Officer:

Richard G. Lindner

Senior Executive Vice President

and Chief Financial Officer

/s/ Richard G. Lindner

Richard G. Lindner, as attorney-in-fact

and on his own behalf as Principal

Financial Officer and Principal

Accounting Officer

February 28, 2011

Directors:

Randall L. Stephenson*

Lynn M. Martin*

Gilbert F. Amelio*

John B. McCoy*

Reuben V. Anderson*

Joyce M. Roché*

James H. Blanchard*

Matthew K. Rose*

Jaime Chico Pardo*

Laura D?Andrea Tyson*

James P. Kelly*

Patricia P. Upton*

Jon C. Madonna*

* by power of attorney

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Exhibit 10-h

AT&T HEALTH PLAN

Effective: January 1, 1987

Previously Amended and Restated: January 1, 2010

Amended and Restated Effective: January 1, 2011 (unless otherwise provided herein)

AT&T HEALTH PLAN

ARTICLE 1 PURPOSE

The AT&T Health Plan ("Plan") provides Participants with supplemental medical, dental, and vision benefits. Effective March 23, 2010, the Plan shall be frozen to new Participants, as further described in Section 2.16. The Company intends this Plan to be a "grandfathered health plan" under the Patient Protection and Affordable Care Act (the "Affordable Care Act"). Appendix C hereto contains the required Participant disclosure regarding the Plan's grandfathered status under the Affordable Care Act.

ARTICLE 2 DEFINITIONS

For purposes of this Plan, the following words and phrases shall have the meanings indicated, unless the context clearly indicates otherwise:

2.1 Active Participant. "Active Participant" shall mean an Active Employee Participant and his Dependents.

2.2 Active Employee Participant. "Active Employee Participant" shall mean an Eligible Employee electing to participate in the Plan while in active service, on a Leave of Absence or while receiving short term disability benefits under the Officer Disability Plan.

2.3 Annual Deductible. "Annual Deductible" shall mean the amount the Active Participant must pay for Covered Health Services in a Plan Year before the Plan will begin paying for Covered Benefits in that calendar year. The Annual Deductible applies to all Covered Health Services. The Annual Deductible does not apply to Preventive Care, Dental Services and Vision Services. Solely for purposes of this Plan, the Annual Deductible will operate on a combined basis with the Annual Deductible (both the "Network/ONA" and "Non-Network Benefit" annual deductibles) applicable in the AT&T Medical Plan. Once the Participant meets his applicable Annual Deductible, the Plan will begin to pay Covered Benefits, subject to any required Coinsurance, in accordance with and as governed by Section 4.1. The applicable Annual Deductible is set forth in Appendix A to this Plan.

2.4 Annual Out-of-Pocket Maximum. "Annual Out-of-Pocket Maximum" shall mean the maximum amount of Covered Health Services an Active Participant must pay out-of-pocket every calendar year, including the Participant's Annual Deductible. Solely for purposes of this Plan, the Annual Out-of-Pocket Maximum will operate on a combined basis with the Annual Out-of-Pocket Maximum (both the "Network/ONA" and "Non-Network Benefit" annual out-of-pocket maximums) applicable in the AT&T Medical Plan (or the Annual Out-of-Pocket Maximum in the AT&T International Health Plan for Officers serving in expatriate positions with the Company). Once the Participant reaches the applicable Annual Out-of-Pocket Maximum, Covered Benefits for those Covered Health Services that apply to the Annual Out-of-Pocket Maximum are payable in accordance with and as governed by Section 4.1 during the rest of that Plan Year. The following costs shall never apply toward the Annual Out-of-Pocket Maximum: (a) any applicable Monthly Contributions and (b) any charges for Non-Covered Health Services. Even when the Annual Out-of-Pocket Maximum has been reached, Covered Benefits will not be provided for the following: (a) any applicable Monthly Contributions and (b) any charges for Non-Covered Health Services. The applicable Annual Out-of-Pocket Maximum is set forth in Appendix A to this Plan.

2.5 AT&T. "AT&T" shall mean AT&T Inc. References to "Company" shall mean AT&T.

2.6 Basic Plan(s). "Basic Plan(s)" shall mean AT&T's group medical (known as the "AT&T Medical Plan" (or the "AT&T International Health Plan" for Officers serving in expatriate positions with the Company)), dental (non-DHMO option), and vision care plans (including the AT&T Retiree Vision Care Program). For a Participant who Retired on or before August 31, 1992, Basic Plans shall mean

the AT&T Medical and Group Life Insurance Plan?CustomCare (?CustomCare?) and dental (non-DHMO option) plans. For this purpose, the Plan Administrator maintains governing records setting forth the names of those Participants who Retired on or before August 31, 1992.

2.7 CEO. "CEO" shall mean the Chief Executive Officer of AT&T Inc.

2.8 COBRA. ?COBRA? shall mean the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

2.9 Coinsurance. ?Coinsurance? shall mean the amount an Active Participant must pay each time he receives Covered Health Services, after he meets the applicable Annual Deductible. Coinsurance payments are calculated as a percentage of Covered Health Services, rather than a set dollar amount. Coinsurance does not apply to Preventive Care, Dental Services and Vision Services (or Medical Services for Retired Participants as provided in Section 4.1(c)). The applicable Coinsurance percentage is set forth in Appendix A to this Plan.

2.10 Committee. "Committee" shall mean the Human Resources Committee of the Board of Directors of AT&T Inc.

2.11 Covered Benefits. ?Covered Benefits? shall mean the benefits provided by the Plan, as provided for and governed by Section 4.1 of the Plan.

2.12 Covered Health Services. ?Covered Health Services? means all Medical Services or Preventive Care that would qualify as deductible medical expenses for federal income tax purposes, whether deducted or not. Dental Services and Vision Services are not included in the definition of Covered Health Services.

2.13 Dental Services. ?Dental Services? shall mean services for dental and orthodontic care. The Plan Administrator, in its sole discretion, shall determine whether a particular service is classified as Preventive Care or a Dental, Medical or Vision Service.

2.14 Dependent(s). ?Dependent(s)? shall mean those individuals who would qualify as a Participant?s dependent(s) under the terms of the group medical Basic Plan in which the Participant participates, or, if applicable, Substitute Basic Coverage.

2.15 Disability. "Disability" shall mean qualification for long term disability benefits under Section 3.1 of the Officer Disability Plan.

2.16 Eligible Employee. "Eligible Employee" shall mean an Officer. Notwithstanding the foregoing,

the CEO may, from time to time, exclude any Officer or group of Officers from being an ?Eligible Employee? under this Plan. Employees of a company acquired by AT&T shall not be considered an Eligible Employee unless designated as such by the CEO. Notwithstanding the foregoing, only the Committee shall have the authority to exclude from participation or take any action with respect to Executive Officers.

Notwithstanding the foregoing provisions, individuals hired, rehired or promoted to an Officer level position on or after March 23, 2010 shall be excluded from the term Eligible Employee, and such individuals (and their Dependents) shall not be eligible to participate in this Plan.

2.17 Employer. "Employer" shall mean AT&T Inc. or any of its Subsidiaries.

2.18 Executive Officer. ?Executive Officer? shall mean any executive officer of AT&T, as that term is used under the Securities Exchange Act of 1934.

2.19 Leave of Absence. ?Leave of Absence? shall mean a Company-approved leave of absence.

2.20 Medical Services. ?Medical Services? shall mean medical/surgical, mental health/substance abuse and prescription pharmacy services. The Plan Administrator, in its sole discretion, shall determine whether a particular service is classified as Preventive Care or a Medical, Dental or Vision Service. Medical Services do not include Dental Services and Vision Services.

2.21 Monthly Contributions. ?Monthly Contributions? shall mean the monthly premiums or contributions required for participation in this Plan as further governed by Article 7 of the Plan. The applicable Monthly Contributions are set forth in Exhibit A to this Plan.

2.22 Non-Covered Health Services. ?Non-Covered Health Services? shall mean any Medical Services or Preventive Care which do not meet the definition of Covered Health Services.

2.23 Officer. "Officer" shall mean an individual who is designated as an officer level employee for compensation purposes on the records of AT&T.

2.24 Participant. ?Participant? shall mean an Active Participant or Retired Participant or both, as the context indicates.

2.25 Plan Administrator. ?Plan Administrator? shall mean the SEVP-HR, or any other person or persons whom the Committee may appoint to administer the Plan; provided that the Committee may act as the Plan Administrator at any time.

2.26 Plan Year. "Plan Year" shall mean the calendar year.

2.27 Preventive Care. "Preventive Care" shall have the same meaning as such term has in the AT&T Medical Plan. The plan administrator for the AT&T Medical Plan shall determine whether a particular service constitutes Preventive Care and the Plan Administrator for this Plan shall rely upon such determination.

2.28 Qualified Dependent. "Qualified Dependent" shall mean a Dependent who loses coverage under a COBRA eligible program due to a Qualifying Event.

2.29 Qualifying Event. "Qualifying Event" shall mean any of the following events if, but for COBRA continuation coverage, they would result in a Participant's loss of coverage under this Plan:

(1)

death of a covered Eligible Employee;

(2)

termination (other than by reason of such Eligible Employee's gross misconduct) of an Employee's employment;

(3)

reduction in hours of an Eligible Employee;

(4)

divorce or legal separation of an Eligible Employee or dissolution of an Eligible Employee's registered domestic partnership;

(5)

an Eligible Employee's entitlement to Medicare benefits; or

(6)

a Dependent child ceasing to qualify as a Dependent under the group medical Basic Plan, or, if applicable, Substitute Basic Coverage.

2.30 Retire, Retired or Retirement. "Retire," "Retired" or "Retirement" shall mean the termination of an Active Employee Participant's employment with AT&T or any of its Subsidiaries, for reasons other than death, on or after the earlier of the following dates: (1) the date such Active Employee Participant has attained age 55, and, for an Active Employee Participant on or after January 1, 2002,

has five (5) years of service, or (2) the date the Active Employee Participant has attained one of the following combinations of age and service at termination of employment on or after April 1, 1997:

Net Credited Service	Age
25 years or more	50 or older
30 years or more	Any age

2.31 Retired Participant. "Retired Participant" shall mean a Retired Employee Participant and his Dependents.

2.32 Retired Employee Participant. "Retired Employee Participant" shall mean a former Active Employee Participant who has Retired within the meaning of Section 2.30 and who meets the additional requirements of Section 3.2 to be eligible for coverage in Retirement.

2.33 SEVP-HR. "SEVP-HR" shall mean AT&T's highest ranking Officer, specifically responsible for human resources matters.

2.34 Subsidiary. "Subsidiary" shall mean any corporation, partnership, venture or other entity in which AT&T holds, directly or indirectly, a 50% or greater ownership interest. The Committee may, at its sole discretion, designate any other corporation, partnership, venture or other entity a Subsidiary for the purpose of participating in this Plan. Notwithstanding anything herein to the contrary, unless designated a "Subsidiary" pursuant to the immediately preceding sentence, Cingular Wireless LLC, Sterling Commerce, Inc., and their respective subsidiaries shall not be considered a Subsidiary under this Plan.

2.35 Vision Services. "Vision Services" shall mean services for vision care. The Plan Administrator, in its sole discretion, shall determine whether a particular service is classified as Preventive Care or a Vision, Medical or Dental Service.

ARTICLE 3 ELIGIBILITY

3.1 Active Participants. Each Eligible Employee shall be eligible to participate in this Plan along with his/her Dependent(s) beginning on the effective date of the employee becoming an Eligible Employee.

Upon becoming an Eligible Employee, he/she shall have 90 days to elect to participate in this Plan. In order to continue participation, the Active Participant must pay all applicable Monthly Contributions. If an Active Employee Participant terminates participation in this Plan at any time for any reason, that Participant and his/her Dependent(s) shall be ineligible to participate in the Plan at any time in the

future.

3.2 Retired Participants. Provisions of this Plan will continue in effect during Retirement for each Retired Employee Participant and his/her Dependent(s) with respect to any Eligible Employee who became a Participant before January 1, 1999. Neither an Eligible Employee who became a Participant after December 31, 1998 nor his/her Dependent(s) shall be eligible for participation hereunder on or after such Participant's Retirement. Coverage for Retired Participants shall be subject to the payment of all applicable Monthly Contributions, as governed by Article 7. The provisions of this Plan related to Retired Participants, including the level of Covered Benefits and the applicable Monthly Premiums, shall begin to apply on the first day of the month following the month in which the Active Employee Participant Retires. If a Retired Employee Participant terminates participation at any time for any reason, participation of that Retired Employee participant and his/her Dependent(s) may not be reinstated for any reason.

3.3 Requirement to Enroll and Participate in Basic Plans and Medicare. Notwithstanding any provision in this plan to the contrary, as a condition to participation in the Plan, each Participant must be enrolled in, paying for, and participating in (i) the Basic Plans, or, if applicable, Substitute Basic Coverage, and (ii) all parts of Medicare for which such Participant is eligible and for which Medicare would be primary if enrolled therein, except for Medicare Part D relating to prescription drug coverage.

Notwithstanding any other provision of the Plan to the contrary, an individual who first becomes an Eligible Employee in the middle of a Plan Year and who is enrolled in AT&T sponsored group health plans other than the Basic Plans, will be allowed to participate in the Plan for the remainder of the Plan Year along with his/her Dependent(s) who are enrolled in such other AT&T sponsored health plans, as if they were participating in the Basic Plans. At the next group enrollment opportunity for the Basic Plans, the Active Employee Participant and his/her Dependent(s) must enroll in the Basic Plans to continue participation in this Plan.

ARTICLE 4 BENEFITS

4.1 Covered Benefits. Subject to the limitations in this Plan (including but not limited to the loyalty conditions set forth in Article 8 below), this Plan provides the benefits described below. Monthly Contributions for participation in this Plan, the Basic Plans, Medicare, or any other health plan are not considered "services", and are therefore are not Covered Benefits under this Plan.

(a)

Active Participants (Medical Services and Preventive Care) -

Medical Services - After the Annual Deductible has been met, 100% payment of Covered Health Services not paid under the AT&T Medical Plan (or AT&T International Health Plan with respect to Officers serving in expatriate positions with the Company) or Medicare minus the amount of Coinsurance, until the Active Participant reaches the Annual Out-of-Pocket Maximum, at which time coverage is 100% of Covered Health Services not paid under the AT&T Medical Plan (or AT&T International Health Plan with respect to Officers serving in expatriate positions with the Company).

Preventive Care - Preventive Care, whether received as a ?Network/ONA? service or ?Non-Network? service, as defined in the AT&T Medical Plan, is covered at 100%, not subject to the Annual Deductible or Coinsurance.

(b)

Active Participants (Dental Services and Vision Services) -

100% payment, through reimbursement or otherwise, of all Dental Services and Vision Services not paid under the Active Participant?s (i) Basic Plans or (ii) Medicare, provided expenses for such services would qualify as deductible medical expenses for federal income tax purposes, whether deducted or not.

(c)

Retired Participants ?

100% payment, through reimbursement or otherwise, of all Medical, Dental, Vision and Preventive services not paid under the Retired Participant?s (i) Basic Plans or, if applicable, Substitute Basic Coverage, or (ii) Medicare, provided expenses for such services would qualify as deductible medical expenses for federal income tax purposes, whether deducted or not.

4.2 Covered Benefit Limits. RESERVED

4.3 Priority of Paying Covered Claims. Claims for benefits will be applied against the various health plans and coordinated with Medicare in the following order:

(1)

Medicare, to the extent the Participant is eligible therefore and such claim is actually paid by Medicare,

(2)

Basic Plans,

(3)

CarePlus, if elected,

(4)

Long Term Care Plan, if elected,

(5)

this Plan.

4.4 Substitute Basic Coverage. Notwithstanding any other provision of this Plan to the contrary, if a Retired Employee Participant is eligible for participation under this Plan during Retirement, but not eligible to participate under the Basic Plans, the Plan shall provide medical, dental, and vision benefits for the Retired Employee Participant and his/her Dependent(s) substantially equivalent to the benefits under the Basic Plans through an insured product (hereinafter, "Substitute Basic Coverage"). Eligibility for Substitute Basic Coverage is conditioned upon the Retired Participant's payment of contributions in the same amount that a similarly situated retired Basic Plan participant is required to pay under the Basic Plans. Such Substitute Basic Coverage shall constitute such Retired Participant's Basic Plans for all purposes under this Plan. The costs of Substitute Basic Coverage (except for the required monthly contributions referenced in this paragraph) shall be borne by AT&T, and the costs of Substitute Basic Coverage shall not be included in the determination of any Retired Participant's annual Plan contribution amount as provided in Article 7. In addition, certain other Retired Employee Participants participate in the "Separation Medical Plan" rather than the Basic Plans. References to Substitute Basic Coverage throughout this Plan shall be deemed to include the Separation Medical Plan. The Plan Administrator maintains records governing the names of those Retired Employee Participants who have Substitute Basic Coverage or Separation Medical Plan coverage.

ARTICLE 5 TERMINATION OF PARTICIPATION

5.1 Termination of Participation. Participation will cease on the last day of the month in which one of the following conditions occurs:

(1)

The Participant is no longer a participant in the Basic Plans or Substitute Basic Coverage, in which

case participation ceases for such Participant;

(2)

A Participant eligible to enroll in Medicare is no longer a participant in all parts of Medicare for which such Participant is eligible to enroll and for which Medicare would be primary if enrolled therein, except for Medicare Part D relating to prescription drug coverage, in which case participation ceases for such Participant;

(3)

The Active Employee Participant's termination of employment for reasons other than Death, Disability, or Retirement by an individual who meets the applicable requirements of Section 3.2 in order to qualify for Plan benefits in Retirement, in which case participation ceases for the Participant and his/her Dependent(s);

(4)

The demotion or designation of an Active Employee Participant so as to no longer be eligible to participate in the Plan, in which case participation ceases for the Participant and his/her Dependent(s);

(5)

The Active Employee Participant (or Retired Employee Participant) participates in an activity that constitutes engaging in competitive activity with AT&T or engaging in conduct disloyal to AT&T under Article 8, in which case participation ceases for the Active Employee Participant (or Retired Employee Participant) and his/her Dependent(s); or

(6)

Discontinuance of the Plan by AT&T, or, with respect to a Subsidiary's Active Employee Participants (or Retired Employee Participants), such Subsidiary's failure to make the benefits hereunder available to Active Employee Participants employed by it (or its Retired Employee Participants).

5.2 Dependents Failure to Participate in Basic Plans. If a Dependent ceases participation under a Basic Plan or, if applicable, Substitute Basic Coverage, such Dependent's participation under this Plan will cease with the same effective date.

5.3 Death. In the event of the Active Employee Participant's (or Retired Employee's Participant's) death, his Dependents may continue participation in this Plan as follows:

(1)

In the event of the death of a Retired Employee Participant such Retired Employee Participant's Dependents may continue participation in this Plan, eligible for the Covered Benefits described in Section 4.1(c) of the Plan, for so long as such Dependents are participating in the Basic Plans (or, if applicable, Substitute Basic Coverage) and are paying any applicable contributions for this Plan as provided in Article 7. If a surviving spouse of such deceased Active Employee Participant otherwise eligible for participation in the Plan remarries, his/her participation and the participation of any otherwise eligible Dependents will cease with the effective date of his/ her marriage.

(2)

In the event of an in-service death of an Active Employee Participant eligible to participate in the Plan in Retirement as provided under Article 3.2, who was Retirement eligible, within the meaning of Section 2.30, at the time of death, such Active Employee Participant's surviving Dependents may continue participation in this Plan, eligible for the Covered Benefits described in Section 4.1(a) and (b), for so long as such Dependents are participating in the Basic Plans (or, if applicable Substitute Basic Coverage) and are paying any applicable contributions for this Plan as provided in Article 7. If a surviving spouse of such deceased Active Employee Participant otherwise eligible for participation in the Plan remarries, his/her participation and the participation of any otherwise eligible Dependents will cease with the effective date of his/ her marriage.

(3)

In the event of (i) an in-service death of an Active Employee Participant not eligible to participate in the Plan in Retirement as provided in Article 3.2 or (ii) an in-service death of an Active Employee Participant eligible to participate in the Plan in Retirement as provided in Article 3.2 but the individual was not Retirement eligible, within the meaning of Section 2.30, at the time of death, such Active Employee Participant's Dependent(s) may continue participation in this Plan, eligible for the Covered Benefits described in Sections 4.1(a) and (b), for a 36-month period commencing the month following the month in which such Active Employee Participant dies as long as such Dependent(s) are participating in the Basic Plans and subject to the payment of Active Participant Contributions for the first 12 months and payment of Active COBRA Contributions for the remaining 24 months, as provided by Articles 7 and 10.1. If the Active Employee Participant's Dependent(s) are eligible for COBRA, they will automatically be enrolled in COBRA so that there is no lapse in coverage, and this 36-month coverage will be integrated and run concurrently with COBRA coverage.

ARTICLE 6 DISABILITY

6.1 Disability. With respect to any Active Employee Participant who commences receipt of short term or long term disability benefits under the Officer Disability Plan, participation under this Plan will be as follows:

(1)

The Participant will continue to participate in this Plan, eligible for the Covered Benefits described in Section 4.1(a) and (b), for as long as he/she receives short term disability benefits under the Officer Disability Plan and pays the applicable contributions for this Plan as provided by Article 7.

(2)

An Active Employee Participant not eligible to participate in the Plan in Retirement as provided in Article 3.2 who commences long term disability benefits under the Officer Disability Plan or an Active Employee Participant eligible to participate in the Plan in Retirement as provided in Article 3.2 but who is not Retirement eligible, within the meaning of Section 2.30, at the time long term disability benefits under the Officer Disability Plan commence, will cease participation in this Plan (along with his/her Dependents) effective as of the last day of the calendar month in which such long term disability benefits commence, unless such benefits commence on the first day of a calendar month, in which case participation in this Plan shall cease effective as of the last day of the prior month.

(3)

An Active Employee Participant eligible to participate in the Plan in Retirement as provided in Article 3.2 ,who is Retirement eligible, within the meaning of Section 2.30, at the time long term disability benefits under the Officer Disability Plan commence, will be eligible to continue participation in this Plan on the same terms and conditions that participation would be available to such Participant in Retirement, subject to the payment of applicable contributions for this Plan as provided by Article 7, regardless of his/her continued receipt of long term disability benefits under the Officer Disability Plan.

ARTICLE 7 COSTS

7.1 Provision of Benefits under the Plan. Except as provided below in this Article 7 with respect to required Monthly Contributions or with respect to any required Coinsurance, the benefits available to Participants under this Plan shall be provided through an insurance policy maintained by AT&T.

7.2 Active Participant Contributions. An Active Participant electing to participate in the Plan will pay Monthly Contributions to participate in the Plan while in active service, while on Leave of Absence or while receiving short term disability benefits under the Officer Disability Plan. The Monthly Contribution for participation may change annually, effective at the beginning of each Plan Year. Contributions to be made by Active Participants electing to participate in the Plan shall be set annually by the SEVP-HR, determined in the SEVP-HR's sole and absolute discretion. The SEVP-HR may adopt tiered rates for similarly situated groups of Participants based on factors such as the number of Dependents covered or Medicare eligibility. Notwithstanding the foregoing, required Monthly Contributions for Executive Officers shall be approved by the Committee.

7.3 Retired Participant Contributions. Retired Participants who elect to participate will pay Monthly Contributions to participate in the Plan. The Monthly Contribution for participation may change annually, effective at the beginning of each Plan Year. Contributions to be made by Retired Participants who elect to participate shall be set annually by the SEVP-HR (in his/her sole and absolute discretion), to the extent their contributions have not previously been provided for in a separate agreement.

7.4 Survivor Contributions. Upon the death of a Participant, the Participant's Dependents shall be required to pay Monthly Contributions to participate in the Plan. The Monthly Contributions shall be set annually by the SEVP-HR, in the SEVP-HR's sole and absolute discretion. Any changes to the Monthly Contributions shall be effective at the beginning of each Plan Year.

7.5 Contributions for Participants on Disability. Participants continuing benefits while on Disability shall be required to pay Monthly Contributions to participate in the Plan. The Monthly Contributions shall be set annually by the SEVP-HR, determined in the SEVP-HR's sole and absolute discretion. Any changes to the Monthly Contributions shall be effective at the beginning of each Plan Year.

ARTICLE 8 LOYALTY CONDITIONS

8.1 Participants acknowledge that no coverage and benefits would be provided under this Plan on and after January 1, 2010 but for the loyalty conditions and covenants set forth in this Article, and that the conditions and covenants herein are a material inducement to AT&T's willingness to sponsor the Plan and to offer Plan coverage and benefits for the Participants on or after January 1, 2010. Accordingly, as a condition of receiving coverage and any Plan benefits on or after January 1, 2010, each Participant is deemed to agree that he shall not, without obtaining the written consent of the Plan Administrator in advance, participate in activities that constitute engaging in competition with AT&T or engaging in conduct disloyal to AT&T, as those terms are defined in this Section. Further and notwithstanding any other provision of this Plan, all coverage and benefits under this Plan on and after January 1, 2010 with respect to a Participant and his or her Dependents shall be subject in their

entirety to the enforcement provisions of this Section if the Participant, without the Plan Administrator's consent, participates in an activity that constitutes engaging in competition with AT&T or engaging in conduct disloyal to AT&T, as defined below. The provisions of this Article 8 as in effect immediately before such date shall be applicable to Participants who retire before January 1, 2010.

8.2 Definitions. For purposes of this Article and of the Plan generally

(1) an "Employer Business" shall mean AT&T, any Subsidiary, or any business in which AT&T or a Subsidiary or an affiliated company of AT&T has a substantial ownership or joint venture interest;

(2) "engaging in competition with AT&T" shall mean, while employed by an Employer Business or within two (2) years after the Participant's termination of employment, engaging by the Participant in any business or activity in all or any portion of the same geographical market where the same or substantially similar business or activity is being carried on by an Employer Business. "Engaging in competition with AT&T" shall not include owning a nonsubstantial publicly traded interest as a shareholder in a business that competes with an Employer Business. "Engaging in competition with AT&T" shall include representing or providing consulting services to, or being an employee or director of, any person or entity that is engaged in competition with any Employer Business or that takes a position adverse to any Employer Business.

(3) "engaging in conduct disloyal to AT&T" means, while employed by an Employer Business or within two (2) years after the Participant's termination of employment, (i) soliciting for employment or hire, whether as an employee or as an independent contractor, for any business in competition with an Employer Business, any person employed by AT&T or its affiliates during the one (1) year prior to the termination of the Participant's employment, whether or not acceptance of such position would constitute a breach of such person's contractual obligations to AT&T and its affiliates; (ii) soliciting, encouraging, or inducing any vendor or supplier with which Participant had business contact on behalf of any Employer Business during the two (2) years prior to the termination of the Participant's employment, for any reason to terminate, discontinue, renegotiate, reduce, or otherwise cease or modify its relationship with AT&T or its affiliate; or (iii) soliciting, encouraging, or inducing any customer or active prospective customer with whom Participant had business contact, whether in person or by other media, on behalf of any Employer Business during the two (2) years prior to the termination of Participant's employment for any reason ("Customer?"), to terminate, discontinue, renegotiate, reduce, or otherwise cease or modify its relationship with any Employer Business, or to purchase competing goods or services from a business competing with any Employer Business, or accepting or servicing business from such Customer on behalf of himself or any other business. "Engaging in conduct disloyal to AT&T" also means, disclosing Confidential Information to any third party or using Confidential Information, other than for an Employer Business, or failing to return any

Confidential Information to the Employer Business following termination of employment.

(4) "Confidential Information" shall mean all information belonging to, or otherwise relating to, an Employer Business, which is not generally known, regardless of the manner in which it is stored or conveyed to the Participant, and which the Employer Business has taken reasonable measures under the circumstances to protect from unauthorized use or disclosure. Confidential Information includes trade secrets as well as other proprietary knowledge, information, know-how, and non-public intellectual property rights, including unpublished or pending patent applications and all related patent rights, formulae, processes, discoveries, improvements, ideas, conceptions, compilations of data, and data, whether or not patentable or copyrightable and whether or not it has been conceived, originated, discovered, or developed in whole or in part by the Participant. For example, Confidential Information includes, but is not limited to, information concerning the Employer Business' business plans, budgets, operations, products, strategies, marketing, sales, inventions, designs, costs, legal strategies, finances, employees, customers, prospective customers, licensees, or licensors; information received from third parties under confidential conditions; or other valuable financial, commercial, business, technical or marketing information concerning the Employer Business, or any of the products or services made, developed or sold by the Employer Business. Confidential Information does not include information that (i) was generally known to the public at the time of disclosure; (ii) was lawfully received by the Participant from a third party; (iii) was known to the Participant prior to receipt from the Employer Business; or (iv) was independently developed by the Participant or independent third parties; in each of the foregoing circumstances, this exception applies only if such public knowledge or possession by an independent third party was without breach by the Participant or any third party of any obligation of confidentiality or non-use, including but not limited to the obligations and restrictions set forth in this Plan.

8.3 Forfeiture of Benefits. Subject to the provisions of Section 1001(5) of the Affordable Care Act, coverage and benefits shall be forfeited and shall not be provided under this Plan for any period as to which the Plan Administrator determines that, within the time period and without the written consent specified, Participant has been either engaging in competition with AT&T or engaging in conduct disloyal to AT&T.

8.4 Equitable Relief. The parties recognize that any Participant's breach of any of the covenants in this Article 8 will cause irreparable injury to AT&T, will represent a failure of the consideration under which AT&T (in its capacity as creator and sponsor of the Plan) agreed to provide the Participant with the opportunity to receive Plan coverage and benefits, and that monetary damages would not provide AT&T with an adequate or complete remedy that would warrant AT&T's continued sponsorship of the Plan and payment of Plan benefits for all Participants. Accordingly, in the event of a Participant's actual or threatened breach of the covenants in this Article, the Plan Administrator, in addition to all other rights and acting as a fiduciary under ERISA on behalf of all Participants, shall have a fiduciary

duty (in order to assure that AT&T receives fair and promised consideration for its continued Plan sponsorship and funding) to seek an injunction restraining the Participant from breaching the covenants in this Article 8. In addition, AT&T shall pay for any Plan expenses that the Plan Administrator incurs hereunder, and shall be entitled to recover from the Participant its reasonable attorneys' fees and costs incurred in obtaining such injunctive remedies. To enforce its repayment rights with respect to a Participant, the Plan shall have a first priority, equitable lien on all Plan benefits provided to or for the Participant and his or her Dependents. In the event the Plan Administrator succeeds in enforcing the terms of this Article through a written settlement with the Participant or a court order granting an injunction hereunder, the Participant shall be entitled to collect Plan benefits prospectively, if the Participant is otherwise entitled to such benefits, net of any fees and costs assessed pursuant hereto (which fees and costs shall be paid to AT&T as a repayment on behalf of the Participant), provided that the Participant complies with said settlement or injunction.

8.5 Uniform Enforcement. In recognition of AT&T's need for nationally uniform standards for the Plan administration, it is an absolute condition in consideration of any Participant's accrual or receipt of benefits under the Plan after January 1, 2010 that each and all of the following conditions apply to all Participants and to any benefits that are paid or are payable under the Plan:

(1) ERISA shall control all issues and controversies hereunder, and the Committee shall serve for purposes hereof as a "fiduciary" of the Plan, and as its "named fiduciary" within the meaning of ERISA.

(2) All litigation between the parties relating to this Article shall occur in federal court, which shall have exclusive jurisdiction, any such litigation shall be held in the United States District Court for the Northern District of Texas, and the only remedies available with respect to the Plan shall be those provided under ERISA.

(3) If the Plan Administrator determines in its sole discretion either (I) that AT&T or its affiliate that employed the Participant terminated the Participant's employment for cause, or (II) that equitable relief enforcing the Participant's covenants under this Article 8 is either not reasonably available, not ordered by a court of competent jurisdiction, or circumvented because the Participant has sued in state court, or has otherwise sought remedies not available under ERISA, then in any and all of such instances the Participant shall not be entitled to collect any Plan benefits, and if any Plan benefits have been paid to the, the Participant shall immediately repay all Plan benefits to the Plan (with such repayments being used within such year for increased benefits for other Participants in any manner determined in the Plan Administrator's discretion) upon written demand from the Plan Administrator. Furthermore, the Participant shall hold AT&T and its affiliates harmless from any loss, expense, or damage that may arise from any of the conduct described in clauses (I) and (II) hereof.

ARTICLE 9 MISCELLANEOUS

9.1 Administration. The Plan Administrator is the named fiduciary of the Plan and has the power and duty to do all things necessary to carry out the terms of the Plan. The Plan Administrator has the sole and absolute discretion to interpret the provisions of the Plan, to make findings of fact, to determine the rights and status of Participants and other under the Plan, to determine which expenses and benefits qualify as Covered Health Services or Covered Benefits, to make all benefit determinations under the Plan, to decide disputes under the Plan and to delegate all or a part of this discretion to third parties and insurers. To the fullest extent permitted by law, such interpretations, findings, determinations and decisions shall be final, binding and conclusive on all persons for all purposes of the Plan. The Plan Administrator may delegate any or all of its authority and responsibility under the Plan to other individuals, committees, third party administrators, claims administrators or insurers for any purpose, including, but not limited to the processing of benefits and claims related thereto. In carrying out these functions, these individuals or entities have been delegated responsibility and discretion for interpreting the provisions of the Plan, making findings of fact, determining the rights and status of Participants and others under the Plan, and deciding disputes under the Plan and such interpretations, findings, determinations and decisions shall be final, binding and conclusive on all persons for all purposes of the Plan.

9.2 Amendments and Termination. This Plan may be modified or terminated at any time in accordance with the provisions of AT&T's Schedule of Authorizations.

9.3 Newborns' and Mothers' Health Protection Act of 1996. To the extent this Plan provides benefits for hospital lengths of stay in connection with childbirth, the Plan will cover the minimum length of stay required for deliveries (i.e., a 48-hour hospital stay after a vaginal delivery or a 96-hour stay following a delivery by Cesarean section.) The mother's or newborn's attending physician, after consulting with the mother, may discharge the mother or her newborn earlier than the minimum length of stay otherwise required by law. Such coverage shall be subject to all other provisions of this Plan.

9.4 Women's Health and Cancer Rights Act of 1998. To the extent this Plan provides benefits for mastectomies, it will provide, for an individual who is receiving benefits in connection with a mastectomy and who elects breast reconstruction in connection with such mastectomy, coverage for reconstruction on the breast on which the mastectomy was performed, surgery and reconstruction on the other breast to give a symmetrical appearance, and prosthesis and coverage for physical complications of all stages of the mastectomy, including lymphedemas. Such coverage shall be subject to all other provisions of this Plan.

9.5 Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008. To

the extent this Plan provides mental health benefits or substance use disorder benefits it will not place annual or lifetime maximums for such benefits that are lower than the annual and lifetime maximums for physical health benefits. In addition, the financial requirements (e.g., deductibles and co-payments) and treatment limitations (e.g., number of visits or days of coverage) that apply to mental health benefits or substance use disorder benefits will not be more restrictive than the predominant financial requirements or treatment limitations that apply to substantially all medical/surgical benefits; mental health benefits and substance use disorder benefits will not be subject to any separate cost sharing requirements or treatment limitations that only apply to such benefits; if the Plan provides for out of network medical/surgical or substance use disorder benefits, it will provide for out of network mental health and substance use disorder benefits and standards for medical necessity determinations and reasons for any denial of benefits relating to mental health benefits and substance use disorder benefits will be made available upon request to plan participants. Such coverage shall be subject to all other provisions of this Plan.

9.6 Continuation of Coverage During Family or Medical Leave. During any period which an Active Employee Participant is on a family or medical leave as defined in the Family or Medical Leave Act, any benefit elections in force for such Participant shall remain in effect. While the Participant is on paid leave, contributions shall continue. If the Participant is on an unpaid leave, the Participant may elect to prepay required contributions on a pre-tax basis before the commencement of such unpaid leave. Alternatively, the Participant may elect to make such payments on an after-tax basis monthly in accordance with an arrangement that the Plan Administrator shall provide. If coverage is not continued during the entire period of the family or medical leave because the Participant declines to pay the premium, the coverage must be reinstated upon reemployment with no exclusions or waiting periods, notwithstanding any other provision of this Plan to the contrary. If the Participant does not return to work upon completion of the leave, the Participant must pay the full cost of any health care coverage that was continued on his/her behalf during the leave. These rules apply to the COBRA eligible programs.

9.7 Rights While on Military Leave. Pursuant to the provisions of the Uniformed Services Employment and Reemployment Rights Act of 1994, an Active Employee Participant on military leave will be considered to be on a Leave of Absence and will be entitled during the leave to the health and welfare benefits that would be made available to other similarly situated employees if they were on a Leave of Absence. This entitlement will end if the individual provides written notice of intent not to return to work following the completion of the military leave. The individual shall have the right to continue his/her coverage, including any Dependent coverage, for the lesser of the length of the leave or 18 months. If the military leave is for a period of 31 days or more, the individual may be required to pay 102 percent of the total premium (determined in the same manner as a COBRA continuation coverage premium). If coverage is not continued during the entire period of the military leave because the individual declines to pay the premium or the leave extends beyond 18 months, the

coverage must be reinstated upon reemployment with no pre-existing condition exclusions (other than for service-related illnesses or injuries) or waiting periods (other than those applicable to all Eligible Employees).

9.8 Qualified Medical Child Support Orders. The Plan will comply with any Qualified Medical Child Support Order issued by a court of competent jurisdiction or administrative body that requires the Plan to provide medical coverage to a Dependent child of an Active Employee or Retired Employee Participant. The Plan Administrator will establish reasonable procedures for determining whether a court order or administrative decree requiring medical coverage for a Dependent child meets the requirements for a Qualified Medical Child Support Order. The cost of coverage or any additional cost of such coverage, if any, shall be borne by the Participant.

9.9 Right of Recovery. If the Plan has made an erroneous or excess payment to any Participant, the Plan Administrator shall be entitled to recover such excess from the individual or entity to whom such payments were made. The recovery of such overpayment may be made by offsetting the amount of any other benefit or amount payable by the amount of the overpayment under the Plan.

ARTICLE 10 COBRA

10.1 Continuation of Coverage Under COBRA. Participants shall have all COBRA continuation rights required by federal law and all conversion rights. COBRA continuation coverage shall be continued as provided in this Article 10.

10.2 COBRA Continuation Coverage for Terminated Participants. A covered Active Employee Participant may elect COBRA continuation coverage, at his/her own expense, if his participation under this Plan would terminate as a result of one of the following Qualifying Events: an Employee's termination of employment or reduction of hours with an Employer.

10.3 COBRA Continuation Coverage for Dependents. A Qualified Dependent may elect COBRA continuation coverage, at his/her own expense, if his/her participation under this Plan would terminate as a result of a Qualifying Event.

10.4 Period of Continuation Coverage for Covered Participants. A covered Active Employee Participant who qualifies for COBRA continuation coverage as a result of a Participant's termination of employment or reduction in hours of employment described in Subsection 10.2 may elect COBRA continuation coverage for up to 18 months measured from the date of the Qualifying Event. Coverage under this Subsection 10.4 may not continue beyond the:

date on which the Active Employee Participant's Employer ceases to maintain this Plan;

(2)

last day of the month for which premium payments have been made with respect to this Plan, if the individual fails to make premium payments on time, in accordance with Subsection 10.6;

(3)

date the covered Active Employee Participant becomes entitled to Medicare; or

(4)

date the covered Participant is no longer subject to a pre-existing condition exclusion under the Participant's other coverage or new employer plan for the type of coverage available under the COBRA eligible program for which the COBRA election was made.

10.5 Period of COBRA Continuation Coverage for Dependents. If a Qualified Dependent elects COBRA continuation coverage under a COBRA eligible program as a result of the an Active Employee Participant's termination of employment as described in Subsection 10.2, continuation coverage may be continued for up to 18 months measured from the date of the Qualifying Event. COBRA continuation coverage for all other Qualifying Events may continue for up to 36 months.

Continuation coverage under this Subsection 10.5 with respect to a COBRA eligible program may not continue beyond the date:

(1)

on which premium payments have not been made, in accordance with Subsection 10.6 below;

(2)

the Qualified Dependent becomes entitled to Medicare;

(3)

on which the Employer ceases to maintain this Plan; or

(4)

the Qualified Dependent is no longer subject to a pre-existing condition exclusion under the Participant's other coverage or new employer plan for the type of coverage available under this Plan.

10.6 Contribution Requirements for COBRA Continuation Coverage. Covered Participants and Qualified Dependents who elect COBRA continuation coverage as a result of a Qualifying Event will be required to pay continuation coverage payments. Continuation coverage payments are the payments required for COBRA continuation coverage that is an amount equal to a reasonable estimate of the cost to this Plan of providing coverage for all covered Participants at the time of the Qualifying Event plus a 2% administrative expense. In the case of a disabled individual who receives an additional 11-month extended coverage under COBRA, the Employer may assess up to 150% of the cost for this extended coverage period. Such cost shall be determined on an actuarial basis and take into account such factors as the Secretary of the Treasury may prescribe in regulations.

Covered Participants and Qualified Dependents must make the continuation coverage payment prior to the first day of the month in which such coverage will take effect. However, a covered Participant or Qualified Dependent has 45 days from the date of an affirmative election to pay the continuation coverage payment for the first month's payment and the cost for the period between the date medical coverage would otherwise have terminated due to the Qualifying Event and the date the covered Participant and/or Qualified Dependent actually elects COBRA continuation coverage.

The covered Participant and/or Qualified Dependent shall have a 30-day grace period to make the continuation coverage payments due thereafter. Continuation coverage payments must be postmarked on or before the completion of the 30-day grace period. If continuation coverage payments are not made on a timely basis, COBRA continuation coverage will terminate as of the last day of the month for which timely premiums were made. The 30-day grace period shall not apply to the 45-day period for the first month's payment of COBRA premiums as set out in the section above.

If payment is received that is significantly less than the required continuation coverage payment, then continuation coverage will terminate as of the last day of the month for which premiums were paid. A payment is considered significantly less than the amount due if it is greater than the lesser of \$50 or 10% of the required continuation coverage payment. Upon receipt of a continuation coverage payment that is insignificantly less than the required amount, the Plan Administrator must notify the covered Participant or Qualified Dependent of the amount of the shortfall and provide them with an additional 30-day grace period from the date of the notice for this payment only.

10.7 Limitation on Participant's Rights to COBRA Continuation Coverage.

(1)

If a Qualified Dependent loses, or will lose medical coverage under this Plan as a result of divorce, legal separation, entitlement to Medicare, or ceasing to be a Dependent, such Qualified Dependent is responsible for notifying the Plan Administrator in writing within 60 days of the Qualifying Event. Failure to make timely notification will terminate the Qualified Dependent's rights to COBRA continuation coverage under this Article.

(2)

A Participant must complete and return the required enrollment materials within 60 days from the later of (a) the date of loss of coverage, or (b) the date the Plan Administrator sends notice of eligibility for COBRA continuation coverage. Failure to enroll for COBRA continuation coverage during this 60-day period will terminate all rights to COBRA continuation coverage under this Article. An affirmative election of COBRA continuation coverage by a Participant or his/her spouse shall be deemed to be an election for that Participant's Dependent(s) who would otherwise lose coverage under the Plan.

10.8 Subsequent Qualifying Event. If a second Qualifying Event occurs during an 18-month extension explained above, coverage may be continued for a maximum of 36 months from the date of the first Qualifying Event. In the event the Dependent loses coverage due to a Qualifying Event and after such date the Participant becomes entitled to Medicare, the Dependent shall have available up to 36 months of coverage measured from the date of the Qualifying Event that causes the loss of coverage. If the Participant was entitled to Medicare prior to the Qualifying Event, the Dependent shall have up to 36 months of coverage measured from the date of entitlement to Medicare.

10.9 Extension of COBRA Continuation Period for Disabled Individuals. The period of continuation shall be extended to 29 months in total (measured from the date of the Qualifying Event) in the event the individual is disabled as determined by the Social Security laws within 60 days of the Qualifying Event. The individual must provide evidence to the Plan Administrator of such Social Security determination prior to the earlier of 60 days after the date of the Social Security determination, or the expiration of the initial 18 months of COBRA continuation coverage. In such event, the Employer may charge the individual up to 150% of the COBRA cost of the coverage.

ARTICLE 11 PRIVACY OF MEDICAL INFORMATION

11.1 Definitions. For purposes of this Article 11, the following defined terms shall have the meaning assigned to such terms in this subsection:

(1) "Business Associate" shall have the meaning assigned to such phrase at 45 C.F.R. § 160.103;

(2) "Health Care Operations" shall have the meaning assigned to such phrase at 45 C.F.R. § 164.501;

(3) "HIPAA" shall mean Parts 160 ("General Administrative Requirements") and 164 ("Security and Privacy") of Title 45 of the Code of Federal Regulations as such parts are amended from time to time;

(4) "Payment" shall have the meaning assigned to such phrase at 45 C.F.R. § 160.103;

(5) "Protected Health Information" or "PHI" shall have the meaning assigned to such phrase at 45 C.F.R. § 160.103; and

(6) "Treatment" shall have the meaning assigned to such phrase at 45 C.F.R. § 164.501.

11.2 Privacy Provisions Relating to Protected Health Information ("PHI"). The Plan and its Business Associates shall use and disclose PHI to the extent permitted by, and in accordance with, HIPAA, for purposes of providing benefits under the Plan and for purposes of administering the plan, including, by way of illustration and not by way of limitation, for purposes of Treatment, Payment, and Health Care Operations.

11.3 Disclosure of De-Identified or Summary Health Information. The HIPAA Plan, or, with respect to the HIPAA Plan, a health insurance issuer, may disclose summary health information (as that phrase is defined at 45 C.F.R. § 160.5049a)) to the Plan Sponsor of the HIPAA Plan (and its affiliates) if such entity requests such information for the purpose of:

(1) Obtaining premium bids from health plans for providing health insurance coverage under the HIPAA Plan;

(2) Modifying, amending or terminating the group health benefits under the HIPAA Plan.

In addition, the HIPAA Plan or a health insurance insurer with respect to the HIPAA Plan may disclose to the Plan Sponsor of the HIPAA Plan (or its affiliates) information on whether an individual is participating in the group health benefits provided by the HIPAA Plan or is enrolled in, or has ceased enrollment with health insurance offered by the HIPAA Plan.

11.4 The HIPAA Plan Will Use and Disclose PHI as Required by Law or as Permitted by the Authorization of the Participant or Beneficiary.

Upon submission of an authorization signed by a Participant, beneficiary, subscriber or personal representative that meets HIPAA requirements, the HIPAA Plan will disclose PHI.

In addition, PHI will be disclosed to the extent permitted or required by law, without the submission of an authorization form.

11.5 Disclosure of PHI to the Plan Sponsor. The HIPAA Plan will disclose information to the Plan Sponsor only upon certification from the Plan Sponsor that the HIPAA Plan documents have been amended to incorporate the assurances provided below.

The Plan Sponsor agrees to:

(1)

not use or further disclose PHI other than as permitted or required by the HIPAA Plan document or as required by law;

(2)

ensure that any affiliates or agents, including a subcontractor, to whom the Plan Sponsor provides PHI received from the HIPAA Plan, agrees to the same restrictions and conditions that apply to the Plan Sponsor with respect to such PHI;

(3)

not use or disclose PHI for employment-related actions and decisions unless authorized by the individual to whom the PHI relates;

(4)

not use or disclose PHI in connection with any other benefits or employee benefit plan of the Plan Sponsor or its affiliates unless permitted by the Plan or authorized by an individual to whom the PHI relates;

(5)

report to the Plan any PHI use or disclosure that is inconsistent with the uses or disclosures provided for of which it becomes aware;

(6)

make PHI available to an individual in accordance with HIPAA's access rules;

(7)

make PHI available for amendment and incorporate any amendments to PHI in accordance with HIPAA;

(8)

make available the information required to provide an accounting of disclosures;

(9)

make internal practices, books and records relating to the use and disclosure of PHI received from the HIPAA Plan available to the Secretary of the United States Department of Health and Human Resources for purposes of determining the Plan's compliance with HIPAA; and

(10)

if feasible, return or destroy all PHI received from the HIPAA Plan that the Plan Sponsor still maintains in any form, and retain no copies of such PHI when no longer needed for the purpose for which disclosure was made (or if return or destruction is not feasible, limit further uses and disclosures to those purposes that make the return or destruction infeasible).

11.6 Separation Between the Plan Sponsor and the HIPAA Plan. In accordance with HIPAA, only the following employees and Business Associate personnel shall be given access to PHI:

(1)

employees of the AT&T Benefits and/or AT&T Executive Compensation organizations responsible for administering group health plan benefits under the HIPAA Plan, including those employees whose functions in the regular course of business include Payment, Health Care Operations or other matters pertaining to the health care programs under a HIPAA Plan;

(2)

employees who supervise the work of the employees described in (1), above;

(3)

support personnel, including other employees outside of the AT&T Benefits or AT&T Executive Compensation organizations whose duties require them to rule on health plan-related appeals or perform functions concerning the HIPAA Plan;

(4)

investigatory personnel to the limited extent that such PHI is necessary to conduct investigations of possible fraud;

(5)

outside and in-house legal counsel providing counsel to the HIPAA Plan;

(6)

consultants providing advice concerning the administration of the HIPAA Plan; and

(7)

the employees of Business Associates charged with providing services to the HIPAA Plan.

The persons identified above shall have access to and use PHI to the extent that such access and use is necessary for the administration of group health benefits under a HIPAA Plan. If these persons do not comply with this Plan document, the Plan Sponsor shall provide a mechanism for resolving issues of noncompliance, including disciplinary sanctions.

11.7 Enforcement.

Enforcement of this Article 11 shall be as provided for by HIPAA. In particular, participants and beneficiaries are not authorized to sue with regard to purported breaches of this Article 11 except as explicitly permitted by HIPAA.

ARTICLE 12 CLAIM AND APPEAL PROCESS

12.1 Claims for Benefits under the Plan. ? See Appendix B.

12.2 Claims Related to Basic Eligibility for Coverage under the Plan and Claims Related to the Article 8 Loyalty Conditions.

(a) Claims. A person who believes that he or she is being denied a benefit to which he or she is entitled under this Plan (hereinafter referred to as a ?Claimant?) based on a claim for basic eligibility for coverage under the Plan or a claim related to the Article 8 Loyalty Conditions may file a written request for such benefit with the Executive Compensation Administration Department, setting forth his or her claim. The request must be addressed to the AT&T Executive Compensation Administration Department at its then principal place of business.

(b) Claim Decision. Upon receipt of a claim, the AT&T Executive Compensation Administration Department shall review the claim and provide the Claimant with a written notice of its decision within a reasonable period of time, not to exceed ninety (90) days, after the claim is received. If the AT&T Executive Compensation Administration Department determines that special circumstances require an extension of time beyond the initial ninety (90)- day claim review period, the AT&T Executive Compensation Administration Department shall notify the Claimant in writing within the initial ninety (90)-day period and explain the special circumstances that require the extension and state the date by which the AT&T Executive Compensation Administration Department expects to render its decision on the claim. If this notice is provided, the AT&T Executive Compensation Administration Department may take up to an additional ninety (90) days (for a total of one hundred eighty (180) days after receipt of the claim) to render its decision on the claim.

If the claim is denied by the AT&T Executive Compensation Administration Department, in whole or in part, the AT&T Executive Compensation Administration Department shall provide a written decision using language calculated to be understood by the Claimant and setting forth: (i) the specific reason or reasons for such denial; (ii) specific references to pertinent provisions of this Plan on which such denial is based; (iii) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation of why such material or such information is necessary; (iv) a description of the Plan?s procedures for review of denied claims and the steps to be taken if the Claimant wishes to submit the claim for review; (v) the time limits for requesting a review of a denied claim under this section and for conducting the review under this section ; and (vi) a statement of the Claimant?s right to bring a civil action under Section 502(a) of ERISA if the claim is denied following review under this section.

(c) Request for Review. Within sixty (60) days after the receipt by the Claimant of the written decision on the claim provided for in this section, the Claimant may request in writing that the Plan

Administrator review the determination of the AT&T Executive Compensation Administration Department. Such request must be addressed to the Plan Administrator at the address provided in the written decision regarding the claim. To assist the Claimant in deciding whether to request a review of a denied claim or in preparing a request for review of a denied claim, a Claimant shall be provided, upon written request to the Plan Administrator and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to the claim. The Claimant or his or her duly authorized representative may, but need not, submit a statement of the issues and comments in writing, as well as other documents, records or other information relating to the claim for consideration by the Committee. If the Claimant does not request a review by the Plan Administrator of the AT&T Executive Compensation Administration Department's decision within such sixty (60)-day period, the Claimant shall be barred and estopped from challenging the determination of the AT&T Executive Compensation Administration Department.

(d) Review of Decision. Within sixty (60) days after the Plan Administrator's receipt of a request for review, the Plan Administrator will review the decision of the AT&T Executive Compensation Administration Department. If the Plan Administrator determines that special circumstances require an extension of time beyond the initial sixty (60)-day review period, the Plan Administrator shall notify the Claimant in writing within the initial sixty (60)-day period and explain the special circumstances that require the extension and state the date by which the Plan Administrator expects to render its decision on the review of the claim. If this notice is provided, the Plan Administrator may take up to an additional sixty (60) days (for a total of one hundred twenty (120) days after receipt of the request for review) to render its decision on the review of the claim.

During its review of the claim, the Plan Administrator shall:

- (1) Take into account all comments, documents, records, and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial review of the claim conducted pursuant to this section;
- (2) Follow reasonable procedures to verify that its benefit determination is made in accordance with the applicable Plan documents; and
- (3) Follow reasonable procedures to ensure that the applicable Plan provisions are applied to the Participant to whom the claim relates in a manner consistent with how such provisions have been applied to other similarly-situated Participants.

After considering all materials presented by the Claimant, the Plan Administrator will render a decision, written in a manner designed to be understood by the Claimant. If the Plan Administrator denies the claim on review, the written decision will include (i) the specific reasons for the decision;

(ii) specific references to the pertinent provisions of this Plan on which the decision is based; (iii) a statement that the Claimant is entitled to receive, upon request to the Plan Administrator and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim; and (iv) a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA.

In any case, a Participant or Beneficiary may have further rights under ERISA. The Plan provisions require that Participants or Beneficiary pursue all claim and appeal rights described in this section before they seek any other legal recourse regarding claims for benefits.

Appendix A

AT&T Health Plan

Monthly Contributions, Annual Deductible,
Coinsurance Percentages and
Annual Out-of-Pocket Maximum

Participant/Coverage

Categories

2011 Plan Year

Active Participants

Monthly Contributions

Individual - \$45

Individual +1 - \$45

Individual +2 or more - \$92

Annual Deductible

Individual - \$1,200

Individual + 1 - \$2,400

Individual +2 or more - \$2,400

Coinsurance Percentage

10% (After Annual Deductible is met, Coinsurance applies until Annual Out-of-Pocket Maximum is reached.)*

Annual Out-of-Pocket Maximum

Individual - \$4,125

Individual +1 - \$6,188

Individual +2 or more - \$8,250

Retired Participants

Monthly Contributions

Plan Year 2011

Retired Prior to August 31, 1992 and Surviving Spouses

\$102

Retired on or after September 1, 1992 and Surviving Spouses**

Class A: \$458

Class B: \$561

Class C: \$707

Class D: \$1,144

Monthly Contributions for COBRA Continuation Coverage

Participant/Coverage

Monthly Contribution

Active COBRA

Individual - \$326

Individual + 1 - \$613

Individual +2 or more - \$922

Retiree COBRA

Individual - \$1,047

Individual +1 - \$2,009

Individual +2 or more - \$2,009

*For prescription pharmacy services, the Coinsurance shall equal the lesser of (i) the Coinsurance Percentage multiplied by the amount of the Covered Health Services or (ii) the amount payable by the Participant for such services under the Basic Plan.

**The Plan Administrator shall maintain records governing whether a Retired Participant is in Class A, B, C or D.

Appendix B

Claims Procedure Applicable to Claims for Benefits under the Plan

Claim for Benefits Procedures

You, your covered dependents or a duly authorized person has the right under ERISA and the Plan to file a written claim for benefits under the Plan. The following describes the procedures used by the Plan to process claims for benefits, along with your rights and responsibilities. These procedures were designed to comply with the rules of the Department of Labor (DOL) concerning claims for Benefits. It is important that you follow these procedures to make sure that you receive full benefits under the Plan.

The Plan is an ERISA plan, and you may file suit in federal court if you are denied benefits you believe are due you under the Plan. However, you must complete the full claims and appeal process offered under the Plan before filing a lawsuit.

Filing a Claim for Benefits

When filing a claim for benefits, you should file the claim with the Claims Administrator. The Claims Administrator is the third party to whom claims and appeal responsibility has been delegated as permitted under Section 9.1 of the Plan.

The following are not considered claims for benefits under the Plan:

- .

A claim related to basic eligibility for coverage under the Plan (See Section 12.2 of the Plan).

- .

A claim related to the Loyalty Conditions contained in Article 8 of the Plan (See Section 12.2 of the Plan).

Claim Filing Limits

A request for payment of benefits must be submitted within one year after the date of service or the date the prescription was provided.

Required Information

When you request payment of benefits from the Plan, you must provide certain information as requested by the Claims Administrator.

Benefit Determinations

Post-Service Claims

Post-service claims are those claims that are filed for payment of benefits after medical care has been received. If your post-service claim is denied, you will receive a written notice from the Claims

Administrator within 30 days of receipt of the claim, as long as all needed information identified above and any other information that the Claims Administrator may request in connection with services rendered to you was provided with the claim. The Claims Administrator will notify you within this 30-day period if additional information is needed to process the Claim and may request a one-time extension not longer than 15 days and pend your Claim until all information is received.

Once notified of the extension, you then have 45 days to provide this information. If all of the needed information is received within the 45-day time frame and the claim is denied, the claims Administrator will notify you of the denial within 15 days after the information is received. If you don't provide the needed information within the 45-day period, your claim will be denied.

A denial notice will explain the reason for denial, refer to the part of the Plan on which the denial is based, and provide the claim appeal procedures.

Pre-Service Claims

Pre-service claims are those claims that require notification or approval prior to receiving medical care or require notification within a specified time period after service begins as required under the Plan provisions. If your claim is a pre-service claim and is submitted properly with all needed information, you will receive written notice of the claim decision from the Claims Administrator within 15 days of receipt of the claim. If you file a pre-service claim improperly, the Claims Administrator will notify you of the improper filing and how to correct it within five days after the pre-service claim is received. If additional information is needed to process the pre-service claim, the Claims Administrator will notify you of the information needed within 15 days after the claim was received and may request a one-time extension not longer than 15 days and pend your claim until all information is received. Once notified of the extension, you then have 45 days to provide this information. If all of the needed information is received within the 45-day time frame, the Claims Administrator will notify you of the determination within 15 days after the information is received. If you don't provide the needed information within the 45-day period, your claim will be denied. A denial notice will explain the reason for denial, refer to the part of the Plan on which the denial is based, and provide the claim appeal procedures.

Urgent Care Claims That Require Immediate Action

Urgent care claims are those claims that require notification or approval prior to receiving medical care in which a delay in treatment could seriously jeopardize your life or health or the ability to regain maximum function or, in the opinion of a physician with knowledge of your medical condition, could

cause severe pain. In these situations:

.

You will receive notice of the benefit determination in writing or electronically within 72 hours after the Claims Administrator receives all necessary information, taking into account the seriousness of your condition.

.

Notice of denial may be oral with a written or electronic confirmation to follow within three days.

If you filed an urgent claim improperly, the Claims Administrator will notify you of the improper filing and how to correct it within 24 hours after the urgent claim was received. If additional information is needed to process the claim, the Claims Administrator will notify you of the information needed within 24 hours after the claim was received. You then have 48 hours to provide the requested information.

You will be notified of a determination no later than 48 hours after either:

.

The Claims Administrator's receipt of the requested information.

.

The end of the 48-hour period within which you were to provide the additional information, if the information is not received within that time.

A denial notice will explain the reason for denial, refer to the part of the Plan on which the denial is based, and provide the claim appeal procedures.

Concurrent Care Claims

If an ongoing course of treatment was previously approved for a specific period of time or number of treatments, and your request to extend the treatment is an urgent care claim as defined above, your request will be decided within 24 hours, provided your request is made at least 24 hours prior to the end of the approved treatment. The Claims Administrator will make a determination on your request for the extended treatment within 24 hours from receipt of your request.

If your request for extended treatment is not made at least 24 hours prior to the end of the approved treatment, the request will be treated as an urgent care claim and decided according to the time frames described above. If an ongoing course of treatment was previously approved for a specific period of time or number of treatments, and you request to extend treatment in a non-urgent circumstance, your request will be considered a new claim and decided according to post-service or pre-service timeframes, whichever applies.

How to Appeal a Claim Decision

If you disagree with a pre-service or post-service claim determination after following the above steps, you can contact the applicable Claims Administrator in writing to formally request an appeal. Your first appeal request must be submitted to the Claims Administrator within 180 days after you receive the Claim denial.

Appeal Process

A qualified individual who was not involved in the decision being appealed will be appointed to decide the appeal. The Claims Administrator may consult with, or seek the participation of, medical experts as part of the appeal resolution process. You must consent to this referral and the sharing of pertinent medical claim information. Upon written request and free of charge you have the right to reasonable access to and copies of all documents, records and other information relevant to your claim for benefits.

Appeals Determinations

Pre-Service and Post-Service Claim Appeals

You will be provided written or electronic notification of the decision on your appeal as follows:

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For appeals of pre-service claims, the first-level appeal will be conducted and you will be notified by the Claims Administrator of the decision within 15 days from receipt of a request for appeal of a denied Claim. The second-level appeal will be conducted and you will be notified by the Claims

Administrator of the decision within 15 days from receipt of a request for review of the first-level appeal decision.

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For appeals of post-service claims, the first-level appeal will be conducted and you will be notified by the Claims Administrator of the decision within 30 days from receipt of a request for appeal of a denied claim. The second-level appeal will be conducted and you will be notified by the Claims Administrator of the decision within 30 days from receipt of a request for review of the first-level appeal decision.

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For procedures associated with urgent Claims, refer to the following "Urgent Claim Appeals That Require Immediate Action" section.

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If you are not satisfied with the first-level appeal decision of the Claims Administrator, you have the right to request a second-level appeal from the Claims Administrator. Your second level appeal request must be submitted to the Claims Administrator in writing within 60 days from receipt of the first-level appeal decision.

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For pre-service and post-service claim appeals, the Plan Administrator has delegated to the Claims Administrator the exclusive right to interpret and administer the provisions of the Plan. The Claims Administrator's decisions are conclusive and binding.

Please note that the Claims Administrator's decision is based only on whether or not benefits are available under the Plan for the proposed treatment or procedure. The determination as to whether the pending health service is necessary or appropriate is between you and your physician.

Urgent Claim Appeals That Require Immediate Action

Your appeal may require immediate action if a delay in treatment could significantly increase the risk to your health or the ability to regain maximum function or cause severe pain.

In these urgent situations, the appeal does not need to be submitted in writing. You or your physician should call the Claims Administrator as soon as possible. The Claims Administrator will provide you with a written or electronic determination within 72 hours following receipt by the Claims Administrator of your request for review of the determination taking into account the seriousness of your condition.

For urgent claim appeals, the Plan Administrator has delegated to the applicable Claims Administrator the exclusive right to interpret and administer the provisions of the Plan. The Claims Administrator's decisions are conclusive and binding.

In any case, a Participant or Beneficiary may have further rights under ERISA. The Plan provisions require that Participants or Beneficiary pursue and exhaust all claim and appeal rights described in this section before they seek any other legal recourse regarding claims for benefits.

APPENDIX C

DISCLOSURE OF GRANDFATHERED STATUS

MODEL NOTICE

AT&T, as plan sponsor, believes this Plan is a "grandfathered health plan" under the Patient Protection and Affordable Care Act (the "Affordable Care Act"). As permitted by the Affordable Care Act, a grandfathered health plan can preserve certain basic health coverage that was already in effect when that law was enacted. Being a grandfathered health plan means that the plan may not include certain consumer protections of the Affordable Care Act that apply to other plans, for example, the requirement for the provision of preventive health services without any cost sharing. However, grandfathered health plans must comply with certain other consumer protections of the Affordable Care Act, for example, the elimination of lifetime limits on benefits.

Questions regarding which protections apply and which protections do not apply to a grandfathered health plan and what might cause a plan to change from grandfathered health plan status can be directed to the plan administrator at P.O. Box 30558, Salt Lake City, Utah 84130-0558. You may also contact the Employee Benefits Security Administration, U.S. Department of labor at 1-866-444-3272 or www.dol.gov/ebsa/healthreform. This website has a table summarizing which protections do

and do not apply to grandfathered health plans.

Exhibit 10-k

Administrative Plan

Amended September 23, 2010

Effective January 1, 2011

The benefits under this Plan are offered by AT&T Inc. (?AT&T?) to persons who have been identified by AT&T as executive officers of AT&T under Rule 3b-7 of the Securities Exchange Act of 1934 (?Executive Officers?).

Administration of Plan. The Plan or the benefits hereunder may be modified or terminated by the Human Resources Committee in its sole discretion at any time.

Except to the extent otherwise provided herein, the Vice President responsible for Human Resources (or the successor to such position) shall be the Administrator of the Plan and will administer the Plan, interpret, construe and apply its provisions in accordance with its terms. The Administrator, in his or her sole discretion, may establish, adopt or revise rules, as he or she may deem necessary or advisable for the administration of the Plan, including the allocation or limitation of benefits.

The Administrator may adopt another plan or plans, not to exceed the benefits included herein, for the benefit of non Executive Officer employees or former employees of AT&T and/or its subsidiaries, as the Administrator may determine in his or her sole discretion and on such terms and conditions as the Administrator shall determine. In addition, the Administrator may provide current or former non Executive Officer employees with:

(a) an amount equal to that necessary to offset the Federal, state and local income taxes, as well as associated employment taxes, of the recipient (including taxes on tax reimbursements) resulting from the benefits in such plan or plans, other than (1) the monthly automobile allowance, and (2) personal use of aircraft; and/or

(b) social club and country club memberships as approved by the CEO or the Administrator (without the limits otherwise provided in this Plan).

The benefit under (a), above, shall also apply to Executive Officers who retired prior to 2010. The Administrator may, from time to time, revise the plan solely to increase the financial limits on benefits, not to exceed the corresponding proportional increase in the consumer price index from January 1, 2003, through the date of change.

All decisions of the Administrator shall be final and binding unless the Board of Directors or its delegate should determine otherwise.

No Employment Rights. Nothing herein shall constitute a contract of continuing employment or in any manner obligate AT&T or any Executive Officer to continue the employment relationship of, or obligate an Executive Officer to continue in the service of AT&T or any Affiliate.

Non-Transferability. No recipient of benefits under this Plan nor any other person shall have any right to sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey any of the benefits hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and non-transferable.

Notice. Any notice required or permitted to be given to the Administrator under the Plan shall be sufficient if in writing and hand delivered, or sent by certified mail, to the principal office of AT&T, directed to the attention of the Senior Executive Vice President-Human Resources. Any notice required or permitted to be given to any other person shall be sufficient if in writing and hand delivered, or sent by certified mail, to the person at the person's last known mailing address as reflected on the records of his or her employing company. Notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark or on the receipt for certification.

Validity. In the event any provision of this Plan is held invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this plan.

Applicable Law. This Plan shall be governed and construed in accordance with the laws of the State of Texas to the extent not preempted by the Employee Retirement Income Security Act of 1974, as amended, and regulations thereunder ("ERISA").

Automobile. Each Executive Officer may receive the use of a four-door automobile or an automobile allowance and expenses associated with the operation of the automobile. The Administrator shall determine the amount of the allowance for each Executive Officer provided that the allowance shall not exceed \$2,000 per month.

Communications. Each Executive Officer may receive reasonable communications services including local, long distance, DSL, Internet, wireless, satellite television/video and related equipment.

Financial Counseling. Executive Officers may receive income tax preparation services and financial planning services from a list of designated providers not to exceed \$14,000 per year.

Estate Planning. Executive Officers may receive estate planning documentation services not to exceed \$10,000 per year. The Estate Planning limit restarts in the event of a company-initiated relocation to another state.

Clubs. Executive Officers may receive social club and transferable country club memberships (along with transfer fees) as approved by the CEO or the Administrator. Other country club fees, including dues and assessments, and individual country club memberships will not be provided.

AT&T does not reimburse for any expenses incurred in connection with a membership in a club that discriminates in its membership policies based on race, creed, gender or ethnic origin. The Administrator shall report annually to the Human Resources Committee as to the usage of this benefit by the Chief Executive Officer and to the Chief Executive Officer on the usage by all other Executive Officers.

Executive Protection. Based upon the concern for the security of Executive Officers, the need to secure their optimum availability for business purposes and to permit uninterrupted communications between them, the Executive Officers are authorized to receive home security services, and, whenever feasible, to use AT&T provided aircraft in connection with business travel and to use such aircraft for the personal travel of Executive Officers where the Chief Executive Officer, in his or her sole discretion, deems such use appropriate because of similar considerations.

Retirement. Upon the Retirement of an Executive Officer, he or she may receive up to an additional amount for financial consulting reasonably in connection with his/her Retirement, as follows: In any given year, 1. for retirements occurring from January 1 through June 30 (inclusive), the amount will be \$20,000 in the calendar year of retirement; 2. for retirements occurring from July 1 through November 30 (inclusive), the amount will be \$10,000 in the calendar year of retirement and \$10,000 in the immediately following calendar year; and 3. for retirements occurring from December 1 through December 31 (inclusive), the amount will be \$20,000 in the year following retirement. A Retired Executive Officer shall continue to receive the communications benefits until death and his or her survivor shall receive the communications benefit for six (6) billing cycles. After the Retirement of an Executive Officer on or before December 31, 2009, he or she shall continue to receive the financial counseling and estate planning benefits until his or her death. Executive Officers that retire on or after January 1, 2010 shall continue to receive the financial counseling and estate planning benefits

for up to 36 months following retirement or until the end of the year following the year of death, whichever occurs earlier. After the death of an Executive Officer or Retired Executive Officer, his or her survivor shall receive the communications benefit for 6 billing cycles and shall receive the financial counseling and estate planning benefits for the remainder of the year of death and the immediately following calendar year. In a Retired Executive Officer's final calendar year of eligibility, the Annual Limits shall be pro-rated on a monthly basis, based on the number of full or partial months the Retired Executive Officer worked in the calendar year of Retirement divided by twelve (12).

Loyalty Conditions.

This Section applies to Executive Officers who are actively employed on or after January 1, 2010.

Executive Officers acknowledge that no coverage and benefits would be provided under this Plan on and after January 1, 2010 but for the loyalty conditions and covenants set forth below, and that the conditions and covenants herein are a material inducement to AT&T's willingness to sponsor the Plan and to offer Plan coverage and benefits for the Executive Officers on or after January 1, 2010. Accordingly, as a condition of receiving coverage and any Plan benefits on or after January 1, 2010, each Executive Officer is deemed to agree that he shall not, without obtaining the written consent of AT&T in advance, participate in activities that constitute engaging in competition with AT&T or engaging in conduct disloyal to AT&T, as those terms are defined in this Section. Further, notwithstanding any other provision of this Plan, all coverage and benefits under this Plan on and after January 1, 2010 with respect to an Executive Officer and his or her Dependents shall be subject in their entirety to the enforcement provisions below if the Executive Officer, without the Administrator's consent participates in an activity that constitutes engaging in competition with AT&T or engaging in conduct disloyal to AT&T, as defined below.

Definitions. For purposes of this Section and of the Plan generally:

an "Employer Business" shall mean AT&T, any subsidiary, or any business in which AT&T or a subsidiary or an affiliated company of AT&T has a substantial ownership or joint venture interest;

"engaging in competition with AT&T" shall mean, while employed by an Employer Business or within two (2) years after the Executive Officer's termination of employment, engaging by the Executive Officer in any business or activity in all or any portion of the same geographical market where the same or substantially similar business or activity is being carried on by an Employer Business.

"Engaging in competition with AT&T" shall not include owning a nonsubstantial publicly traded interest as a shareholder in a business that competes with an Employer Business. "Engaging in competition with AT&T" shall include representing or providing consulting services to, or being an employee or director of, any person or entity that is engaged in competition with any Employer

Business or that takes a position adverse to any Employer Business.

“Engaging in conduct disloyal to AT&T” means, while employed by an Employer Business or within two (2) years after the Executive Officer’s termination of employment, (i) soliciting for employment or hire, whether as an employee or as an independent contractor, for any business in competition with an Employer Business, any person employed by AT&T or its affiliates during the one (1) year prior to the termination of the Executive Officer’s employment, whether or not acceptance of such position would constitute a breach of such person’s contractual obligations to AT&T and its affiliates; (ii) soliciting, encouraging, or inducing any vendor or supplier with which the Executive Officer had business contact on behalf of any Employer Business during the two (2) years prior to the termination of the Executive Officer’s employment, for any reason to terminate, discontinue, renegotiate, reduce, or otherwise cease or modify its relationship with AT&T or its affiliate; or (iii) soliciting, encouraging, or inducing any customer or active prospective customer with whom Executive Officer had business contact, whether in person or by other media, on behalf of any Employer Business during the two (2) years prior to the termination of Executive Officer’s employment for any reason (“Customer”), to terminate, discontinue, renegotiate, reduce, or otherwise cease or modify its relationship with any Employer Business, or to purchase competing goods or services from a business competing with any Employer Business, or accepting or servicing business from such Customer on behalf of himself or any other business. “Engaging in conduct disloyal to AT&T” also means, disclosing Confidential Information to any third party or using Confidential Information, other than for an Employer Business, or failing to return any Confidential Information to the Employer Business following termination of employment.

“Confidential Information” shall mean all information belonging to, or otherwise relating to, an Employer Business, which is not generally known, regardless of the manner in which it is stored or conveyed to the Executive Officer, and which the Employer Business has taken reasonable measures under the circumstances to protect from unauthorized use or disclosure. Confidential Information includes trade secrets as well as other proprietary knowledge, information, know-how, and non-public intellectual property rights, including unpublished or pending patent applications and all related patent rights, formulae, processes, discoveries, improvements, ideas, conceptions, compilations of data, and data, whether or not patentable or copyrightable and whether or not it has been conceived, originated, discovered, or developed in whole or in part by the Executive Officer. For example, Confidential Information includes, but is not limited to, information concerning the Employer Business’ business plans, budgets, operations, products, strategies, marketing, sales, inventions, designs, costs, legal strategies, finances, employees, customers, prospective customers, licensees, or licensors; information received from third parties under confidential conditions; or other valuable financial, commercial, business, technical or marketing information concerning the Employer Business, or any of the products or services made, developed or sold by the Employer Business. Confidential Information does not include information that (i) was generally known to the public at the

time of disclosure; (ii) was lawfully received by the Executive Officer from a third party; (iii) was known to the Executive Officer prior to receipt from the Employer Business; or (iv) was independently developed by the Executive Officer or independent third parties; in each of the foregoing circumstances, this exception applies only if such public knowledge or possession by an independent third party was without breach by the Executive Officer or any third party of any obligation of confidentiality or non-use, including but not limited to the obligations and restrictions set forth in this Plan.

Forfeiture of Benefits. Coverage and benefits under this Plan shall be forfeited and shall not be provided under this Plan for any period as to which the Administrator determines that, within the time period and without the written consent specified, the Executive Officer has been either engaging in competition with AT&T or engaging in conduct disloyal to AT&T.

Equitable Relief. The parties recognize that any Executive Officer's breach of any of the covenants in this Section will cause irreparable injury to AT&T, will represent a failure of the consideration under which AT&T (in its capacity as creator and sponsor of the Plan) agreed to provide the Executive Officer with the opportunity to receive Plan coverage and benefits, and that monetary damages would not provide AT&T with an adequate or complete remedy that would warrant AT&T's continued sponsorship of the Plan and payment of Plan benefits for all Executive Officers. Accordingly, in the event of an Executive Officer's actual or threatened breach of the covenants herein, the Administrator, in addition to all other rights and acting as a fiduciary under ERISA on behalf of all Executive Officers, shall have a fiduciary duty (in order to assure that AT&T receives fair and promised consideration for its continued Plan sponsorship and funding) to seek an injunction restraining the Executive Officer from breaching the covenants in this Section. In addition, AT&T shall pay for any Plan expenses that the Administrator incurs hereunder, and shall be entitled to recover from the Executive Officer its reasonable attorneys' fees and costs incurred in obtaining such injunctive remedies. To enforce its repayment rights with respect to an Executive Officer, the Plan shall have a first priority, equitable lien on all Plan benefits provided to or for the Executive Officer and his or her Dependents. In the event the Administrator succeeds in enforcing the terms of this Article through a written settlement with the Executive Officer or a court order granting an injunction hereunder, the Executive Officer shall be entitled to collect Plan benefits prospectively, if the Executive Officer is otherwise entitled to such benefits, net of any fees and costs assessed pursuant hereto (which fees and costs shall be paid to AT&T as a repayment on behalf of the Executive Officer), provided that the Executive Officer complies with said settlement or injunction.

Uniform Enforcement. In recognition of AT&T's need for nationally uniform standards for the Plan administration, it is an absolute condition in consideration of any Executive Officer's accrual or receipt of benefits under the Plan after January 1, 2010 that each and all of the following conditions apply to all Executive Officers and to any benefits that are paid or are payable under the Plan:

(1) To the maximum extent applicable ERISA shall control all issues and controversies hereunder, and the Administrator shall serve for purposes hereof as a ?fiduciary? of the Plan, and as its ?named fiduciary? within the meaning of ERISA.

(2) All litigation between the parties relating to this Article shall occur in federal court, which shall have exclusive jurisdiction, any such litigation shall be held in the United States District Court for the Northern District of Texas, and the only remedies available with respect to the Plan shall be those provided under ERISA to the extent it is applicable.

(3) If the Administrator determines in its sole discretion either (I) that AT&T or its affiliate that employed the Executive Officer terminated the Executive Officer?s employment for cause, or (II) that equitable relief enforcing the Executive Officer?s covenants under this Section is either not reasonably available, not ordered by a court of competent jurisdiction, or circumvented because the Executive Officer has sued in state court, or has otherwise sought remedies not available under ERISA (to the extent applicable), then in any and all of such instances the Executive Officer shall not be entitled to collect any Plan benefits, and if any Plan benefits have been paid to the Executive Officer, the Executive Officer shall immediately repay all Plan benefits to the Plan (which shall be used to pay Plan administrative expenses or Plan benefits) upon written demand from the Administrator. Furthermore, the Executive Officer shall hold AT&T and its affiliates harmless from any loss, expense, or damage that may arise from any of the conduct described in clauses (I) and (II) hereof.

Annual Limits. Expenses will be charged against the annual limits for the calendar year based on the date of the invoice.

Exhibit 10-v

AT&T INC.

CHANGE IN CONTROL SEVERANCE PLAN

Amended and restated September 23, 2010

Effective January 1, 2011

Article 1 - Purpose

The purpose of the AT&T Inc. Change in Control Severance Plan (the "Plan") is to foster the continuous employment of key management personnel of the Company and its Subsidiaries and to reinforce and encourage their continued attention and dedication to their duties in the face of potentially disturbing circumstances arising from the possibility of a Change in Control (as defined in Article 2) of the Company, although no such change is now apparent or contemplated.

Article 2 - Definitions

As used in this Plan, the following terms shall have the respective meanings set forth below, and, when the meaning is intended, the initial letter of the word is capitalized:

"Base Salary" means the Participant's annual rate of base salary in effect immediately prior to the occurrence of the circumstance giving rise to the Participant's Termination of Employment, or, if greater, the Participant's annual rate of base salary in effect immediately prior to the Change in Control.

"Board" means the Board of Directors of the Company and, after a Change in Control, the "board of directors" of the Ultimate Parent (as defined below under Change in Control).

"Bonus Amount" means a Participant's target annual bonus for the fiscal year in which the Change in Control occurs or in which Participant's Date of Termination occurs, whichever is greater; provided that, if a target annual bonus has not been established for the applicable fiscal year, then the target annual bonus established for the preceding fiscal year shall be substituted in lieu thereof.

"Cause" means (i) the willful and continued failure by a Participant to substantially perform his or her duties with the Company and its Subsidiaries (other than any such failure resulting from his or her incapacity due to physical or mental impairment, or any such actual or anticipated failure after the issuance of a notice of termination by him or her for Good Reason) after a written demand for substantial performance is delivered to the Participant by the Company which demand specifically identifies the manner in which the Company believes that he or she has not substantially performed his or her duties, or (ii) the willful engaging by a Participant in conduct which is demonstrably and materially injurious to the Company or any Subsidiary, monetarily or otherwise. For purposes of this definition, no act, or failure to act, on a Participant's part shall be deemed "willful" unless done, or omitted to be done, by the Participant not in good faith and without reasonable belief that his or her action or omission was in the best interest of the Company and its Subsidiaries. Notwithstanding the foregoing, a Participant shall not be deemed to have been terminated for Cause unless and until there shall have been delivered to him or her a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the

Board called and held for such purpose (after reasonable notice to the Participant and an opportunity for him or her, together with counsel, to be heard before the Board), finding that in the good faith opinion of the Board the Participant was guilty of the conduct set forth above in clauses (i) or (ii) of the first sentence of this definition and specifying the particulars thereof in detail.

“Change in Control” shall be deemed to have occurred if (i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the shareowners of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the “beneficial owner” (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the total voting power represented by the Company’s then outstanding voting securities, or (ii) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors and any new Director whose election by the Board of Directors or nomination for election by the Company’s shareowners was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof, or (iii) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation (such post-merger surviving entity the “Ultimate Parent?”), or the shareowners of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company’s assets.

“Committee” means the Human Resources Committee of the Board.

“Company” means AT&T Inc.

“Date of Termination” means the date of the Participant's Termination of Employment with the Company and its Subsidiaries as determined under Section 4.1 of the Plan.

“Disability” has the meaning ascribed under the relevant Employer’s long-term disability plan.

“Employee” means any person employed as an employee by an Employer and paid on an Employer’s employee payroll system, excluding persons hired for a fixed maximum term and excluding persons who are neither citizens nor permanent residents of the United States, all as

determined by the Employer. For purposes of this Plan, a person on a Leave of Absence who otherwise would be an Employee shall be deemed to be an Employee.

“Employer” means the Company or any of its Subsidiaries provided that, if an entity ceases to be a Subsidiary during the Termination Period, such entity shall continue to be an Employer and the Employee shall continue to be a Participant until the second anniversary of the Change in Control and, notwithstanding any other provision to the contrary, any benefits under the Plan shall be paid or provided by the Company.

“Exchange Act” means the Securities Exchange Act of 1934.

“Executive Officer” means a person who has been identified by the Company as an executive officer under Rule 3b-7 of the Securities Exchange Act of 1934 prior to a Change in Control.

“Good Reason” means, without the Participant’s express written consent, the occurrence of any of the following events after a Change in Control: (i) the assignment to the Participant of any duties inconsistent with his or her title(s) or status immediately prior to the Change in Control, or a substantial adverse alteration in the nature or status of his or her responsibilities from those in effect immediately prior to the Change in Control; (ii) a reduction in the Participant’s annual base salary, target short-term or long term incentive award opportunity (including any current payments that may be made thereunder, such as the payment of dividend equivalents) as in effect immediately prior to the Change in Control, except for across-the-board salary reductions similarly affecting all officers of the Company and its Subsidiaries and all managers in equivalent positions of any person in control of the Company; (iii) the failure to pay to the Participant any portion of his or her current compensation or deferred compensation under any compensation or benefit program within seven (7) days of the date such payment is due; (iv) the failure to continue to provide the Participant with benefits substantially similar to those enjoyed by him or her under the pension, life insurance, medical, health, accident and disability plans, or any fringe benefit material to the Participant that he or she was eligible for at the time of the Change in Control; the direct or indirect material reduction in any of such benefits; or the failure to provide the Participant with the number of paid vacation days to which he or she is entitled on the basis of his or her duration of service with the Company and its Subsidiaries, in accordance with the Employer’s normal vacation policy in effect immediately prior to the Change in Control; (v) the failure to obtain a satisfactory agreement from any successor to assume and agree to perform this Plan, as contemplated in Article 7; or (vi) any purported termination of the Participant’s employment after a Change in Control which is not effected pursuant to a notice of termination satisfying the requirements of Sections 4.1 and 8.1 (for purposes of this Plan, no such purported termination shall be effective); provided, however, that a good faith determination within ninety (90) days of the occurrence of a Change in Control by a Participant who is the Chief Executive Officer of the Company (the “CEO”) that, as a result of such Change in Control, he or she is not able to

discharge his or her duties effectively shall constitute Good Reason.

An isolated, insubstantial and inadvertent action taken in good faith implicating clauses (i), (iv), (v) or (vi) of this definition which is fully corrected by the Company prior to the Date of Termination specified in the notice of termination shall not constitute Good Reason. A Participant's right to terminate his or her employment for Good Reason shall not be affected by his or her incapacity due to physical or mental impairment. A Participant's continued employment shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder.

Leave of Absence shall mean when a Participant is absent from employment with an Employer on a leave of absence, military leave, or sick leave, where the leave is given in order to prevent a break in the continuity of term of employment, and permission for such leave is granted (and not revoked) in conformity with the rules of the Employer that employs the individual, as adopted from time to time and the Employee is reasonably expected to return to service. Except as set forth below, the leave shall not exceed six (6) months for purposes of this Plan, and the Employee shall incur a Termination of Employment upon cessation of such leave if the Employee does not return to work prior to that time, unless the individual retains a right to reemployment under law or by contract. A twenty-nine (29) month limitation shall apply in lieu of such six (6) month limitation if the leave is due to the Employee being "disabled" (within the meaning of Treasury Regulation §1.409A-3(i)(4)), and the Employee shall incur a Termination of Employment upon cessation of such leave. A Leave of Absence shall not commence or shall be deemed to cease under the Plan where the Employee has incurred a Termination of Employment.

Officer Level Employee means any Executive Officer and any Employee who is an officer level Employee for compensation purposes as shown on the records of the Company and its Subsidiaries.

Participant means the CEO, each Officer Level Employee who had in effect on September 28, 2006 a Severance Benefits Change in Control Agreement with the Company, and each other Officer Level Employee (i) who is designated from time to time in writing by the CEO and (ii) whose designation is evidenced in writing by a notification of participation to the Employee signed by the CEO. A person shall cease to be a Participant upon (a) the Participant's Termination of Employment prior to a Potential Change in Control or (b) the Board, the Committee or the CEO determining, in their sole discretion, that the person shall cease to qualify for benefits under this Plan (but any such determination made in respect of a Participant shall be considered an amendment of the Plan adverse to the interests of the affected Participant and is subject to the provisions of Section 8.5). Notwithstanding the foregoing, only the Committee shall have the authority to exclude from participation or take any other action with respect to Executive Officers.

Potential Change in Control shall be deemed to have occurred if (i) the Company enters into an

agreement, the consummation of which would result in the occurrence of a Change in Control or (ii) the Board adopts a resolution to the effect that, for purposes of this Plan, a Potential Change in Control of the Company has occurred.

Qualifying Termination means a Participant's Termination of Employment during the Termination Period (i) by the Employer other than for Cause or (ii) by the Participant for Good Reason. Termination of Employment on account of death, Disability or Retirement shall not be treated as a Qualifying Termination.

Retirement means the Participant's mandatory retirement in accordance with the Employer's mandatory retirement age policy, if any, for officers as in effect immediately prior to a Change in Control or in accordance with any retirement arrangement established with the Participant's consent with respect to him or her; provided, however, that a Participant's termination for Good Reason shall not constitute Retirement.

Specified Employee means any Participant who is a **Key Employee** (as defined in Code Section 416(i) without regard to paragraph (5) thereof), as determined by the Company in accordance with its uniform policy with respect to all arrangements subject to Code Section 409A, based upon the twelve (12) month period ending on each December 31st (such twelve (12) month period is referred to below as the **identification period**). All Participants who are determined to be key employees under Code Section 416(i) (without regard to paragraph (5) thereof) during the identification period shall be treated as Specified Employees for purposes of the Plan during the twelve (12) month period that begins on the first day of the 4th month following the close of such identification period.

Subsidiary means any corporation, partnership, venture or other entity in which the Company holds, directly or indirectly, a fifty percent (50%) or greater ownership interest. The Committee may, at its sole discretion, designate, on such terms and conditions as the Committee shall determine, any other corporation, partnership, limited liability company, venture or other entity a Subsidiary for purposes of this Plan.

Termination of Employment means the event where the Participant has a "separation from service," as defined under Section 409A, with the Employer.

Termination Period means the period of time beginning with a Change in Control and ending on the second anniversary of such Change in Control.

Article 3 - Effectiveness of the Plan

This Plan shall be effective as of January 1, 2007. Nothing in this Plan shall be deemed to entitle any

Participant to continued employment with any Employer, and if a Participant's employment with any Employer terminates prior to a Change in Control, the Participant shall have no rights under this Plan.

Article 4 - Payments Upon a Qualifying Termination

4.1 Termination of Employment.

(a) Notice of Termination. Any purported termination of a Participant's employment during the Termination Period by an Employer or by a Participant shall be communicated by written notice of termination to the other party in accordance with this Section 4.1 and Section 8.1 (regarding notices). For purposes of this Plan, a "notice of termination" shall mean a notice which shall indicate the specific termination provision in this Plan relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for the Participant's Termination of Employment under the provision so indicated. The failure by the Participant or the Employer to set forth in such notice any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Participant or the Employer hereunder or preclude the Participant or the Employer from asserting such fact or circumstance in enforcing the Participant's or the Employer's rights hereunder.

(b) Date of Termination. If a Participant has a Qualifying Termination, the Date of Termination shall be the date specified in the notice of termination (which, in the case of a termination other than for Cause or a termination for Good Reason shall not be less than fifteen (15) nor more than sixty (60) days from the date such notice is given). If a Participant's Termination of Employment is for Cause, the Date of Termination shall not be less than thirty (30) days from the date notice is given. In the event of a dispute arising out of the Participant's Termination of Employment, the Date of Termination will be determined in accordance with Section 4.1(c).

(c) Disputes Involving Termination. If within fifteen (15) days after any notice of termination is given, or, if later, prior to the Date of Termination (as determined without regard to this provision), the party receiving such notice of termination notifies the other party that a dispute exists concerning whether the termination is a Qualifying Termination or for Cause, the Date of Termination for purposes of Section 4.2 hereof shall be the date on which the dispute is finally resolved either by mutual written agreement of the parties, or by a final judgment, order or decree of a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); provided, however, that if the dispute is not resolved prior to the end of the Termination Period, the Termination Period shall be extended so as not to deprive the Participant of the benefits under Section 4.2 in respect of such termination; provided further, that the Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence. During the

pendency of any such dispute (the "Dispute Period"), subject to Section 6.1, the Employer will (i) continue to pay the Participant his or her full Base Salary in accordance with the Company's payroll practice in effect from time to time (provided that the amount paid in any calendar year shall be equal to the Participant's annual rate of Base Salary or a proportionate fraction thereof with respect to portions of calendar years during the Dispute Period (other than amounts that are required to be paid in a subsequent calendar year pursuant to Section 6.1)), and (ii) continue the Participant as a participant in all Health Benefits as described in Section 4.2(c) of the Plan (subject to Section 6.2 of the Plan) on the same basis as provided under Section 4.2(c). Amounts paid under this provision are in addition to all other amounts due under this Plan and shall not be offset against or reduce any other amounts due under this Plan.

4.2 Severance Payments.

If the Participant has a Qualifying Termination, then subject to Schedule B to the Plan, the Company shall or shall cause the Employer to provide to the Participant:

(a) his or her full base salary through the Date of Termination at the rate in effect at the time notice of termination is given, plus all other amounts to which he or she is entitled under any compensation plan in effect immediately prior to the Change in Control, at the time such payments are due; provided that, subject to the Participant's execution of a Release in the form attached to this Plan as Schedule A (the "Release") within forty-five (45) days of the Participant's Date of Termination (and thereafter not revoking such Release), for purposes of determining the amount to which a Participant is entitled under the Financial Counseling Program, he or she shall be regarded as having retired under the terms of the program; and

(b) subject to the Participant's execution of a Release within forty-five (45) days of the Participant's Date of Termination (and thereafter not revoking such Release), a lump sum cash payment equal to the result of multiplying (i) the sum of (A) the Participant's Base Salary, plus (B) the Participant's Bonus Amount by (ii) 2.99; provided, however, that if the amount of such payment cannot be finally determined on or before such day, the Participant shall be paid an estimate, as determined in good faith by the Company of the minimum amount of such payment and the remainder of such payment (together with interest at the rate provided in section 1274(b)(2)(B) of the Internal Revenue Code of 1986, as amended (the "Code")) as soon as the amount thereof can be determined; provided further that, in the event that the amount of the estimated payment exceeds the amount subsequently determined to have been due, such excess shall be reimbursed by the Participant, payable on the fifth (5th) day after demand by the Company (together with interest at the rate provided in section 1274(b)(2)(B) of the Code); and

(c) subject to the Participant's execution of a Release within forty-five (45) days of the Participant's

Date of Termination (and thereafter not revoking such Release), if the Participant is not otherwise entitled to such benefits at no cost to him or her pursuant to the terms of such plans, subject to Section 6.2 of the Plan, for a thirty six (36) month period from the Date of Termination or until December 31 of the year in which the Participant reaches age sixty-five (65), whichever is the shorter period (the "Benefit Period"), life, health and dental benefits (including spouse and dependent coverage) ("Health Benefits") substantially similar to those that he or she was receiving immediately prior to the Date of Termination and such benefits shall be provided at no cost to the Participant (or spouse and dependents), provided that, notwithstanding the foregoing, the Participant shall not be provided any Health Benefit pursuant to this Section 4.2(c) if an equivalent benefit is actually received by the Participant during the Benefit Period from another Employer following his or her Date of Termination and any such Health Benefit actually received by the Participant shall be reported by the Participant to the Company

4.3

No Duplication of Benefits. Except as otherwise expressly provided pursuant to this Plan, this Plan shall be construed and administered in a manner which avoids duplication of compensation and benefits which may be provided under any other plan, program, policy, or other arrangement or individual contract. In the event a Participant is covered by any other plan, program, policy, individually negotiated agreement or other arrangement, in effect as of his or her Date of Termination, that may duplicate the payments and benefits provided for in this Article 4, the Company may reduce or eliminate the duplicative benefits provided for under the Plan but solely to the extent such reduction or elimination does not cause the Participant to be subject to penalty taxes under Section 409A.

4.4

No Affect on Other Benefits. This Plan does not abrogate any of the usual entitlements which a Participant has or will have, first, while a regular employee, and subsequently, after termination, and thus, subject to Section 4.3 of this Plan, a Participant shall be entitled to receive all benefits payable to him or her under each and every qualified plan, welfare plan and any other plan or program relating to benefits and deriving from his or her employment with the Company and its Subsidiaries, but solely in accordance with the terms and provisions thereof.

Article 5 ? Withholding Taxes

The Company and its Subsidiaries may withhold from all payments due to the Participant (or his beneficiary or estate) hereunder all taxes which, by applicable federal, state, local or other law, are required to be withheld.

Article 6 - Certain Additional Agreements under Section 409A

6.1 Delay of Payment. In the event that a payment to be made pursuant to Sections 4.1(c) or 4.2(b) or any other amounts under this Plan that constitutes non-qualified deferred compensation under Section 409A of the Code ("Section 409A") is to be made to a "Specified Employee," such payment will be delayed for six (6) months after the Date of Termination if required in order to avoid additional tax under Section 409A and paid in a single lump sum on the first business day of the month following the end of such six (6) month period. If a Participant who is a Specified Employee dies within six (6) months following such Termination of Employment, any such delayed payments shall not be further delayed, and shall be immediately payable within forty-five (45) days to his or her estate in accordance with the applicable provisions of this Plan.

6.2 Health Benefits. Health Benefits shall be provided in such a manner that such benefits (and the costs and premiums thereof) are excluded from the Participant's income for federal income tax purposes and, if the Company reasonably determines that providing continued coverage under one or more of its health care benefit plans contemplated herein could be taxable to the Participant, the Company shall provide such benefits at the level required hereby through the purchase of individual insurance coverage; provided, if the Company reasonably determines that any portion of the Health Benefits cannot be provided through the purchase of individual insurance coverage without penalty, such portion shall be made available on a taxable basis, but the Benefit Period shall be limited to the Participant's maximum period of continuation coverage under section 4980B of the Code.

6.3 Cash Payments. Subject to the Participant's execution of a Release within forty-five (45) days of the Participant's Date of Termination (and thereafter not revoking such Release), the Company shall use its best efforts to pay, or shall use its best efforts to cause the Employer to pay, to the Participant the cash lump sum described in Section 4.2(b) to be made, subject to Section 6.1 on the sixtieth (60th) day following the Participant's Date of Termination.

6.4 No Adverse Action. No Employer will take any action that would expose any payment or benefit to a Participant under this Plan to the additional tax imposed under Section 409A unless (i) the Employer is obligated to take the action under an agreement, plan or arrangement, (ii) a Participant requests the action, (iii) the Employer advises such Participant in writing that the action may result in the imposition of the additional tax and (iv) such Participant subsequently requests the action in a writing that acknowledges that he or she will be responsible for any effect of the action under Section 409A.

Article 7 - Successors; Binding Agreement

7.1 The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to unconditionally assume all of the obligations of the Employer hereunder. Failure of the Company to obtain such assumption prior to the effectiveness of any such succession shall constitute Good Reason hereunder and shall entitle the Participants to compensation and other benefits in the same amount and on the same terms as the Participants would be entitled hereunder if they had a Qualifying Termination, except that for purposes of implementing the foregoing, the date on which any succession becomes effective shall be deemed the Date of Termination.

7.2 The benefits provided under this Plan shall inure to the benefit of and be enforceable by the Participant's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Participant shall die while any amounts would be payable to the Participant hereunder had the Participant continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Plan to such person or persons appointed in writing by the Participant to receive such amounts or, if no person is so appointed, to the Participant's estate.

Article 8 ? Miscellaneous

8.1 Election and Notices. Notwithstanding anything to the contrary contained in this Plan, all elections and notices of every kind under this Plan shall be made on forms prepared by the Company or its General Counsel, Secretary or Assistant Secretary, or their respective delegates or shall be made in such other manner as permitted or required by the Company or its General Counsel, Secretary or Assistant Secretary, or their respective delegates, including through electronic means, over the Internet or otherwise. An election shall be deemed made when received by the Company (or its designated agent, but only in cases where the designated agent has been appointed for the purpose of receiving such election), which may waive any defects in form.

If not otherwise specified by this Plan or the Company, any notice or filing required or permitted to be given to the Company under the Plan shall be delivered to the principal office of the Company, directed to the attention of the Senior Executive Vice President in charge of Human Resources for the Company or his or her successor. Such notice shall be deemed given on the date of delivery.

Notice to the Participant shall be deemed given when mailed (or sent by telecopy) to the Participant's work or home address as shown on the records of the Employer or, at the option of the Company, to the Participant's e-mail address as shown on the records of the Employer. It is the Participant's responsibility to ensure that the Participant's addresses are kept up to date on the records of the Employer. In the case of notices affecting multiple Participants, the notices may be given by general distribution at the Participants' work locations.

8.2

No Mitigation; Resolution of Disputes and Costs.

(a)

In no event shall the Participant be obligated to seek other employment or take other action by way of mitigation of the amounts payable to the Participant under any of the provisions of this Plan and, except as provided in Section 4.2(c), such amounts shall not be reduced whether or not the Participant obtains other employment.

(b)

Participants may submit claims for benefits by giving notice to the Company pursuant to Section 8.1. If a Participant believes that he or she has not received coverage or benefits to which he or she is entitled under the Plan, the Participant may notify the Company in writing of a claim for coverage or benefits. If the claim for coverage or benefits is denied in whole or in part, the Company shall notify the applicant in writing of such denial within thirty (30) days (which may be extended to sixty (60) days under special circumstances), with such notice setting forth: (i) the specific reasons for the denial; (ii) the Plan provisions upon which the denial is based; (iii) any additional material or information necessary for the applicant to perfect his or her claim; and (iv) the procedures for requesting a review of the denial. Upon a denial of a claim by the Company, the Participant may: (i) request a review of the denial by the Board or, where review authority has been so delegated, by such other person or entity as may be designated by the Board for this purpose; (ii) review any Plan documents relevant to his or her claim; and (iii) submit issues and comments to the Board or its delegate that are relevant to the review. Any request for review must be made in writing and received by the Board or its delegate within sixty (60) days of the date the applicant received notice of the initial denial, unless special circumstances require an extension of time for processing. The Board or its delegate will make a written ruling on the applicant's request for review setting forth the reasons for the decision and the Plan provisions upon which the denial, if appropriate, is based. This written ruling shall be made within thirty (30) days of the date the Board or its delegate receives the applicant's request for review unless special circumstances require an extension of time for processing, in which case a decision will be rendered as soon as possible, but not later than sixty (60) days after receipt of the request for review. All extensions of time permitted by this Section 8.2 will be permitted at the sole discretion of the Board or its delegate. If the Board does not provide the Participant with written notice of the denial of his or her appeal, the Participant's claim shall be deemed denied.

(c)

Notwithstanding anything in this Plan to the contrary, any court, tribunal or arbitration panel that adjudicates any dispute, controversy or claim arising between a Participant and any Employer, or any of their delegates or successors, in respect of a Participant's Qualifying Termination, will apply a de novo standard of review to any determinations made by such person. Such de novo standard shall apply notwithstanding the grant of full discretion hereunder to any such person or characterization of any such decision by such person as final, binding or conclusive on any party.

(d)

If any contest or dispute shall arise under this Plan involving a Participant's Termination of Employment or involving the failure or refusal of any Employer to perform fully in accordance with the terms hereof, the Company shall or shall cause the Employer to reimburse the Participant on a current basis for all reasonable legal fees and related expenses, if any, incurred by the Participant at any time from the Effective Date of this Plan through the Participant's remaining lifetime (or, if longer, through the 20th anniversary of the Change in Control) in connection with such contest or dispute (regardless of the result thereof), together with interest at the rate provided in section 1274(b)(2)(B) of the Code, such interest to accrue thirty (30) days from the date the Company receives the Participant's statement for such fees and expenses through the date of payment thereof, regardless of whether or not the Participant's claim is upheld by a court of competent jurisdiction or an arbitration panel; provided, however, that the Participant shall be required to repay immediately any such amounts to the Employer to the extent that a court or an arbitration panel issues a final and non-appealable order setting forth the determination that the position taken by the Participant was frivolous or advanced by the Participant in bad faith. To comply with Section 409A, in no event shall the payments by the Employer under this Section 8.2(d) be made later than the end of the calendar year next following the calendar year in which such fees and expenses were incurred, provided, that the Participant shall have submitted an invoice for such fees and expenses at least ten (10) days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred. The amount of such legal fees and expenses that the Employer is obligated to pay in any given calendar year shall not affect the legal fees and expenses that the Employer is obligated to pay in any other calendar year, and the Participant's right to have the Employer pay such legal fees and expenses may not be liquidated or exchanged for any other benefit.

8.3 Survival. The respective obligations and benefits afforded to the Company and the Participant as provided in Articles 4 (to the extent that payments or benefits are owed as a result of a Qualifying Termination that occurs during the term of this Plan), 5, 6, 7 and 8 shall survive the termination of this Plan.

8.4 Governing Law; Validity. To the extent not preempted by Federal law, the Plan, and all benefits and agreements hereunder, and any and all disputes in connection therewith, shall be governed by and construed in accordance with the substantive laws of the State of Delaware, without regard to conflict or choice of law principles which might otherwise refer the construction, interpretation or enforceability of this Plan to the substantive law of another jurisdiction.

8.5 Amendment and Termination. The Board or the Committee may amend (and, by amendment, terminate) this Plan at any time; provided, however, that (i) no amendment that reduces or eliminates any benefit or other entitlement of any Participant or that is otherwise adverse to the interests of a Participant (an "Adverse Amendment") may take effect prior to the beginning of any calendar year, and any such amendment shall be void and of no effect, unless the Participant was notified of such amendment by September 30 of the prior year, (ii) no Adverse Amendment may be adopted during the period of time beginning on a Potential Change in Control and ending on the earlier of (a) the termination of the agreement that constituted the Potential Change in Control and (b) the second anniversary of the resulting Change in Control, without the Participant's written consent, and (iii) no Adverse Amendment may be adopted during the period commencing on a Change in Control and ending on the second anniversary of the Change in Control without the Participant's written consent. The restrictions on amendments set forth in the prior sentence shall not apply to any amendment adopted within the period specified in clauses (ii) or (iii), above, if the following three conditions are satisfied: (1) the amendments do not take effect until the expiration of the periods, as applicable, set forth in such clauses, (2) each adversely affected Participant receives written notice of the adoption of such amendments within ten (10) days of such adoption and (3) such written notice is provided at least ninety (90) days prior to such amendments taking effect.

8.6 Interpretation and Administration. The Plan shall be administered by the Board. The Board may delegate any of its powers under the Plan to a committee thereof or prior to a Change in Control, to the CEO. Unless otherwise provided in this Plan, actions of the Board or such committee shall be taken by a majority vote of its members. All references to the "Board" herein shall be deemed to be references to such delegate, as appropriate. The Board shall have the authority (i) to exercise all of the powers granted to it under the Plan, (ii) to construe, interpret and implement the Plan, (iii) to prescribe, amend and rescind rules and regulations relating to the Plan, (iv) to make all determinations necessary or advisable in administration of the Plan and (v) to correct any defect, supply any omission and reconcile any inconsistency in the Plan.

8.7 Type of Plan. This Plan is intended to be, and shall be interpreted (a) as an unfunded employee welfare plan under Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and Section 2520.104-24 of the Department of Labor Regulations, maintained primarily for the purpose of providing employee welfare benefits, to the extent that it provides welfare benefits, and under Sections 201, 301 and 401 of ERISA, as a plan that is unfunded and maintained

primarily for the purpose of providing deferred compensation, to the extent that it provides such compensation, in each case for a select group of management or highly compensated employees and (b) to comply with the requirements of Section 409A of the Code.

8.8 Nonassignability. Benefits under the Plan may not be sold, assigned, transferred, pledged, anticipated, mortgaged, or otherwise encumbered, transferred, hypothecated, or conveyed in advance of actual receipt of the amounts, if any, payable hereunder, or any part thereof by the Participant.

Schedule A

RELEASE AND WAIVER

I, _____, hereby fully waive and forever release and discharge Company, AT&T, any and all other subsidiaries of Company and of AT&T, their officers, directors, agents, servants, employees, successors and assigns and any and all employee benefit plans maintained by AT&T or any subsidiary thereof and/or any and all fiduciaries of any such plan from any and all common law and/or statutory claims, causes of action or suits of any kind whatsoever arising from or in connection with my past employment by Company (and any AT&T subsidiary to the extent applicable) and/or my separation therefrom, including but not limited to claims, actions, causes of action or suits of any kind allegedly arising under the Employee Retirement Income Security Act (ERISA), as amended, 29 USC §§ 1001 et seq.; the Rehabilitation Act of 1973, as amended, 29 USC §§ 701 et seq.; the Civil Rights Acts of 1866 and 1870, as amended, 42 USC §§ 1981, 1982 and 1988; the Civil Rights Act of 1871, as amended, 42 USC §§ 1983 and 1985; the Civil Rights Act of 1964, as amended, 42 USC § 2000d et seq.; the Americans With Disabilities Act, as amended, 42 USC §§ 12101 et seq., and the Age Discrimination in Employment Act of 1967 (ADEA), as amended, 29 USC §§ 621 et seq., known and unknown. In addition, I, _____, agree not to file any lawsuit or other claim seeking monetary damage or other relief in any state or federal court or with any administrative agency against any of the aforementioned parties in connection with or relating to any of the aforementioned matters. Provided, however, by executing this Release and Waiver, I, _____, do not waive rights or claims that may arise after the date of execution; provided further, however, this Release and Waiver shall not affect my right to receive or enforce through litigation, any indemnification rights to which I am entitled as a result of my past employment by the Company or contract rights pursuant to the Agreement and Release and Waiver of Claims entered into contemporaneously herewith and, if

applicable, any subsidiary of AT&T; and, provided further, this Release and Waiver shall not affect the ordinary distribution of benefits/entitlements, if any, to which I am entitled upon termination from Company; it being understood by me that said benefits/entitlements, if any, will be subject to and provided in accordance with the terms and conditions of their respective governing plan and this Agreement.

Schedule B

Limitation on Payments Under Certain Circumstances

(a) The following terms shall have the meanings set forth below for purposes of this Schedule B to the Plan:

“Accounting Firm” shall mean a nationally recognized certified public accounting firm that is selected by the Company for purposes of making the applicable determinations hereunder and is reasonably acceptable to the Participant, which firm shall not, without the Participant’s consent, be a firm serving as accountant or auditor for the individual entity or group effecting the Change in Control.

“Excise Tax” means the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

“Net After-Tax Receipt” shall mean the present value (as determined in accordance with Sections 280G(b)(2)(A)(ii) and 280G(d)(4) of the Code) of a Payment net of all taxes imposed on the Participant with respect thereto under Sections 1 and 4999 of the Code and under applicable state and local laws, determined by applying the highest marginal rate under Section 1 of the Code and under state and local laws which applied to the Participant’s taxable income for the immediately preceding taxable year, or such other rate(s) as the Accounting Firm determined to be likely to apply to the Participant in the relevant tax year(s).

?Parachute Value? of a Payment means the present value as of the date of the change in control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a ?parachute payment? under Section 280G(b)(2) of the Code, as determined by the Accounting Firm for purposes of determining whether and to what extent the Excise Tax will apply to such Payment.

?Payment? means any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Participant, whether paid or payable pursuant to this Plan or otherwise.

?Plan Payment? has the meaning set forth in Paragraph (b) of this Schedule B.

?Safe Harbor Amount? means (x) 3.0 times the Participant?s ?base amount,? within the meaning of Section 280G(b)(3) of the Code, minus (y) \$1.00.

?Underpayment? has the meaning set forth in Paragraph (d) of this Schedule B,

(b) Notwithstanding any provision of the Plan to the contrary, in the event an Accounting Firm shall determine that receipt of all Payments would subject the Participant to the excise tax under Section 4999 of the Code, the Accounting Firm shall determine whether to reduce any of the Payments paid or payable pursuant to this Plan (the ?Plan Payments?) so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount. The Plan Payments shall be so reduced only if the Accounting Firm determines that the Participant would have a greater ?Net After-Tax Receipt? of aggregate Payments if the Plan Payments were so reduced. If the Accounting Firm determines that the Participant would not have a greater ?Net After-Tax Receipt? of aggregate Payments if the Plan Payments were so reduced, the Participant shall receive all Plan Payments to which the Participant is entitled hereunder.

(c) If the Accounting Firm determines in accordance with Paragraph (b) of this Schedule B that the aggregate Plan Payments should be reduced so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount, the Company shall promptly give the Participant notice to that effect and a copy of the detailed calculation thereof. All determinations made by the Accounting Firm under this Schedule B shall be binding upon the Company and the Participant and shall be made as soon as reasonably practicable and in no event later than fifteen (15) days following the Date of Termination. For purposes of reducing the Plan Payments so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount, only amounts payable under this Plan (and no other Payments) shall be reduced. The reduction of the Plan Payments, if applicable, shall be made by reducing the payments and benefits under the following sections in the following order: (1) any Plan Payments under Section 4.1(c), (2) any Plan Payments under Section 4.2(b), and (3) any Plan Payments under Section 6.2. All fees and expenses of the Accounting Firm shall be borne

solely by the Company.

(d) As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that amounts will have been paid or distributed by the Company to or for the benefit of the Participant pursuant to this Plan which should have not been so paid or distributed (?Overpayment?) or that additional amounts which will have not been paid or distributed by the Company to or for the benefit of the Participant pursuant to this Plan could have been so paid or distributed (?Underpayment?), in each case, consistent with the calculation of the Safe Harbor Amount hereunder. In the event that the Accounting Firm, based upon the assertion of the deficiency by the Internal Revenue Service against either the Company or the Participant which the Accounting Firm believes has a high probability of success, determines that an Overpayment has been made, the Participant shall pay promptly (and in no event later than sixty (60) days following the date on which the Overpayment is determined) pay any such Overpayment to the Company together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the Participant to the Company if and to the extent such payment would not either reduce the amount on which the Participant is subject to tax under Section 1 and Section 4999 of the Code or generate a refund of such taxes. In the event that the Accounting Firm, based upon controlling precedent or substantial authority, determines that the Underpayment has occurred, any such Underpayment shall be paid promptly (and in no event later than sixty (60) days following the date on which the Underpayment is determined) by the Company to or for the benefit of the Participant together with interest at the applicable federal rate provided for in Section 7872(f)(2) of the Code.

(e) To the extent requested by the Participant, the Company shall cooperate with the Participant in good faith in valuing, and the Accounting Firm shall take into account the value of, services provided or to be provided by the Participant (including without limitation, the Participant?s agreeing to refrain from performing services pursuant to a covenant not to compete or similar covenant) before, on or after the date of a change in ownership or control of the Company (within the meaning of Q&A-2(b) of the final regulations under Section 280G of the Code), such Payments in respect of such services may be considered reasonable compensation within the meaning of Q&A-9 and Q&A-40 to Q&A-44 of the final regulations under Section 280G of the Code and/or exempt from the definition of the term ?parachute payment? within the meaning of Q&A-2(a) of the final regulations under Section 280G of the Code in accordance with Q&A-5(a) of the final regulations under Section 280G of the Code.

AT&T PENSION BENEFIT
MAKE UP PLAN NO. 1

Effective: January 1, 2005
Restated December 31, 2008
Amended and Restated December 31, 2010

AT&T PENSION BENEFIT MAKE UP PLAN NO. 1

SECTION 1: Purpose and History

1.1. Purpose. The primary purpose of the AT&T Pension Benefit Make Up Plan No. 1 (the

?Plan?) is to supplement the benefits a Participant is entitled to receive under a pension plan that is qualified under Code Section 401(a) and is sponsored by AT&T Inc. (?AT&T? or the ?Company?) or one of its Subsidiaries (collectively, the ?Pension Plans?). This Plan recognizes compensation earned by an individual who is eligible to participate in this Plan as provided in Section 2 (a ?Participant?) that is not recognized in the determination of benefits under the Participant?s Pension Plan, and this Plan is intended to make up benefits that would otherwise be lost because of such Pension Plan limitations.

The Plan is intended to provide deferred compensation benefits by recognizing compensation earned by a Participant that is in excess of the amount that is recognized under Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the ?Code?), and to provide benefits to the extent such Participant?s Pension Plan benefits are limited by the provisions of Code Section 415.

1.2. History. The Plan is effective as of January 1, 2005, and constitutes an amendment and restatement of the plans listed in Attachment A (the ?Predecessor Plans?). AT&T and companies whose equity interests are owned 100%, directly or indirectly, by AT&T (?Subsidiary?) sponsored the Predecessor Plans for the benefit of their respective eligible employees. No additional benefits shall accrue under the Predecessor Plans after December 31, 2004, and benefits of Participants who terminate employment on or after January 1, 2005 shall be paid solely under this Plan. The Predecessor Plans were intended to supplement participants? Pension Plan benefits by (i) recognizing compensation that is not eligible to be recognized for purposes of calculating Pension Plan benefits, either as a result of statutory limitations or Pension Plan limitations, and/or (ii) providing benefits in excess of the limitations of Code Section 415. This Plan is intended to aggregate all of such Predecessor Plans and provide substantially similar benefits, on a going forward basis. Further, this Plan is intended to satisfy the requirements of Code Section 409A, effective with respect to amounts deferred after December 31, 2004. During the period from January 1, 2005 to December 31, 2008, the Plan has been operated in good faith compliance with the provisions of Code Section 409A, Internal Revenue Service Notice 2005-1, and the final Treasury Regulations for Code Section 409A, and any other generally applicable guidance published in the Internal Revenue Service Bulletin with an effective date prior to January 1, 2009. On or after January 1, 2009, this Plan shall be interpreted and construed consistent with the requirements of Code Section 409A and all applicable guidance issued thereunder.

SECTION 2: Eligibility and Participation

2.1. Eligibility. Benefit accrual in this Plan is limited to each employee of any Subsidiary of AT&T who:

(a)

participates in a Pension Plan;

(b)

is a General Management level or above employee;

(c)

is not eligible for benefits under the 2005 AT&T Supplemental Employee Retirement Plan; and

(d)

receives types of compensation that are used to determine the employee's Pension Plan benefit (e.g., base salary or short term incentive compensation) in any calendar year, but that compensation is not recognized for purposes of determining such employee's Pension Plan benefit, or whose Pension Plan benefit is limited by Code Section 415.

(e)

is not an employee of a company acquired by AT&T on or after September 1, 2005 unless designated as eligible by AT&T's highest ranking officer specifically responsible for human resource matters; provided, however, effective January 1, 2009, this section 2.1(e) shall not apply to any employee who satisfies the eligibility provisions of this section 2.1 (a), (b), (c), and (d) and is employed by AT&T Inc. or any of its Subsidiaries on or after January 1, 2009, other than an employee who is a participant in the BellSouth Corporation Supplemental Executive Retirement Plan, the AT&T Corp. Nonqualified Pension Plan, or the AT&T Corp. Excess Pension Plan.

(f)

additionally, an employee who meets the requirements of paragraphs (a), (b), (c), and (d) and is employed by AT&T Inc. or any of its Subsidiaries on or after January 1, 2009 and who participates in the BellSouth Corporation Supplemental Executive Retirement Plan (?BLS SERP?) solely with a frozen BLS SERP benefit and no longer in an eligible position to accrue additional BLS SERP benefits, may participate in the Plan.

2.2. Construction of Eligibility Provisions. The eligibility provisions of Section 2.1, above, shall be interpreted in the broadest possible sense in order that this Plan can recognize all base salary and

short term incentive compensation, whenever earned, for the purpose of making up any benefit that would otherwise be lost due to the fact that the Pension Plan is unable to recognize any such compensation in determining retirement benefits.

2.3. Loss of Eligibility. In the event that any Participant ceases to satisfy the eligibility conditions of Section 2.1, such Participant shall nevertheless continue to be eligible to receive benefits under this Plan, however, no additional benefits shall accrue under the Plan unless and until he or she shall re-attain eligibility hereunder.

2.4. Ineligible Participant. Notwithstanding any other provision of this Plan to the contrary, if any Participant is determined not to be "in a select group of management or highly compensated employees" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or the regulations thereunder, such Participant shall not be eligible to continue to accrue a benefit under this Plan on or after such date to the extent benefits hereunder are attributable to compensation in excess of the amount under Code Section 401(a)(17) and not attributable to the limitations imposed by the provisions of Code Section 415.

2.5 No Duplication of Benefits. Notwithstanding any provision of this Plan to the contrary, if a Participant ceases to accrue benefits under this Plan and becomes eligible to receive the equivalent of his/her benefit under this Plan pursuant to the Pension Benefit Make Up Plan No. 2, to the extent such benefit is paid pursuant to such other plan, no duplication of such payment shall be made pursuant to this Plan.

SECTION 3: Amount of Plan Benefits

3.1. Amount of Plan Benefits. Subject to the terms and conditions of the Plan, the Plan benefits payable to, or on account of, a Participant under the Plan as of any date shall be an amount as described in the paragraphs below. A participant's Pension Plan Program is one of the non-bargained programs that are defined and operated as part of the AT&T Pension Benefit Plan: Southeast Management Program, AT&T Legacy Management Program, Management Cash Balance Program, Nonbargained Program, and Wireless Program. The Plan benefit is equal to:

(a) the amount of the Participant's benefit under the applicable Pension Plan Program and period of employment in which he or she actively participates (i.e., accrues benefits) on the date of his or her termination of employment that would have been payable to or on account of the Participant under such Pension Plan Program as of that date, determined without regard to the limitations imposed by either Code Section 401(a)(17) or 415 and determined as if all types of compensation that are used to determine the employee's Pension Plan benefit (e.g., base salary and short-term incentive compensation that the Participant is eligible to receive) were recognized for

purposes of calculating such amount;

(i)

if the Participant is also eligible for a separate frozen benefit under another Pension Plan Program for a prior period of employment, such amount is not included in the amount determined under this subsection (a); except in the following case:

(ii)

if the Participant's service was bridged specifically due to the Sixth Amendment to the AT&T Pension Benefit Plan, where such amendment was approved in November 2010 and effective January 1, 2010, in cases where a Pension Plan participant transferred employment from the Legacy AT&T company or Legacy BellSouth company to Cingular Wireless, after the joint venture formation of Cingular and prior to AT&T's acquisition of BellSouth, then the total Pension Plan benefit (from the frozen separate Pension Plan Program and current Pension Plan Program) will be included in the amount determined under this subsection (a);

REDUCED BY

(b) the amount of the Participant's benefit actually paid under the applicable Pension Plan Program and period of employment in which he or she actively participates (i.e., accrues benefits) on the date of his or her termination of employment;

(i)

if the Participant is also eligible for a separate frozen benefit under another Pension Plan Program for a prior period of employment, such amount is not included in the amount determined under this subsection (b); except in the following case:

(ii)

if the Participant's service was bridged specifically due to the Sixth Amendment to the AT&T Pension Benefit Plan, where such amendment was approved in November 2010 and effective January 1, 2010, in cases where a Pension Plan participant transferred employment from a Legacy AT&T company or Legacy BellSouth company to Cingular Wireless, after the joint venture formation of Cingular and prior to AT&T's acquisition of BellSouth, then the total Pension Plan benefit (from the frozen separate Pension Plan Program and current Pension Plan Program) will be included in the amount determined under this subsection (b).

The amount determined under subsection (a), above, shall be calculated in the same manner that is used for calculating the amount under subsection (b), using the benefit calculation methodology and the factors in effect under such Pension Plan as of the date of his termination of employment; the only difference being the amount of compensation used for calculating such amount.

The Plan benefit is FURTHER REDUCED BY:

(c) amount of a BLS SERP participant's frozen BLS SERP benefit.

Notwithstanding the above descriptions, for any Participant who ceased to satisfy the eligibility conditions of Section 2.1(c) due to initial participation in the AT&T Supplemental Employee Retirement Plan on or before December 31, 2008 shall have a Plan benefit equal to the greater of (d) or (e) described below:

(d)

the amount described by paragraphs 3.1(a), 3.1(b) and 3.1(c) above determined as of the Participant's actual termination-of-employment date.

(e)

the amount described by paragraphs 3.1(a), 3.1(b) and 3.1(c) above determined as if the Participant had terminated employment effective December 31, 2008.

3.2. Participants in Predecessor Plans. If a Participant participated in one or more Predecessor Plans prior to becoming a Participant under this Plan, benefits under this Plan shall be no less than the benefits accrued under the Predecessor Plans, and the benefits under this Plan shall be in lieu of all benefits otherwise payable to him under the Predecessor Plans.

SECTION 4: Payment of Plan Benefits

4.1 Distribution of Plan Benefits. Benefits hereunder shall be calculated and distributed upon a Participant's termination of employment; provided, however, distribution of Plan benefits of any Participant who is also an officer of the Company shall commence on the sixth month anniversary of such Participant's termination of employment.

4.2. Form of Plan Benefits. Benefits hereunder shall be paid in the form of a lump sum; provided, however, if the amount of the Participant's lump sum benefit exceeds \$50,000 as of his termination of employment, the Plan benefit shall be paid in monthly installments over a period of ten (10) years. .Notwithstanding the foregoing, with respect to any Participant who, prior to termination of employment ceases to satisfy the eligibility conditions of Section 2.1, the form of such Participant's benefit (lump sum or ten (10) year monthly annuity) shall be determined as of the date such Participant ceases to satisfy the eligibility conditions of Section 2.1.

If benefits are distributed in the form of a monthly annuity for ten (10) years, the monthly payments shall be calculated in the same manner that a financial institution would calculate the monthly payments for a 10-year fixed interest loan.

Notwithstanding any other provision of this Plan, the benefits of any Participant who was a participant in and accrued benefits under the Cingular Wireless SBC Executive 2005 Transition Pension Make Up Plan (which is a Predecessor Plans) shall have their benefits distributed exclusively in a lump sum.

4.3 Converting Form of Benefit. For all purposes under the Plan, the lump sum benefit and ten year monthly installment form of benefit shall be the actuarially determined equivalent of one another, as determined by the Plan Administrator in the Plan Administrator's complete and sole discretion, and the amount of such benefits under the Plan shall be determined on the basis of the Participant's age and the rates, tables, and factors which would be utilized to determine such benefit under the Pension Plan as of the date required for making such determination..

SECTION 5: General and Administrative Provisions

5.1. Plan Administration. The Company shall be the Plan Administrator of the Plan. The Plan Administrator's responsibilities hereunder shall be carried out by its Senior Executive Vice President responsible for Human Resources matters. The authority to control and manage the operation and administration of the Plan shall be vested in the Plan Administrator. The Plan Administrator has the exclusive right and discretion to construe, interpret and apply the provisions of the Plan and the entitlement to benefits under the Plan in accordance with its terms. The Plan Administrator may establish, adopt or revise such rules and regulations as the Plan Administrator may deem necessary or advisable for the administration of the Plan. Any decision made by the Plan Administrator on any matter within the Plan Administrator's discretion is conclusive, final and binding on all persons, and not subject to further review. The Benefit Plan Committee of the Company shall grant or deny claims for benefits under the Plan and authorize disbursements. Adequate notice, pursuant to applicable law and prescribed Company practices, shall be provided in writing to any Participant or Beneficiary

whose claim has been denied, setting forth the specific reasons for such denial. The review and appeal procedures for any Participant or Beneficiary whose claim has been denied shall be the same as those procedures set forth in the Pension Plan under which such Participant or Beneficiary is entitled to or received benefits.

5.2. Source of Benefits; Unsecured Creditor. The obligations of the Company under the Plan are solely contractual. Any amount payable under the terms of the Plan shall be paid from the general assets of the Company or a Subsidiary. Alternatively, amounts payable under the terms of the Plan may be paid from one or more trusts that the Company or a Subsidiary might elect to establish, the assets of which will be subject to the claims of the general creditors of the Company or the Subsidiary that created the trust. Participants and their beneficiaries shall have no legal or equitable rights, interest, or claims in any property or assets of the Company or any Subsidiary. Any and all of the Company's or a Subsidiary's assets shall be, and remain, the general, unpledged, unrestricted assets of the Company or any such Subsidiary. The Company's or a Subsidiary's obligation under the Plan shall be merely that of an unfunded and unsecured promise of the Company or any such Subsidiary to distribute cash under the Plan in the future. If a Participant's term of employment includes service by two Subsidiaries or by the Company and one or more Subsidiaries, the Company or Subsidiary which last employed the Participant shall be solely responsible for the entire benefit payable under the Plan.

5.3. Notices. Any notice or document required to be given to or filed with the Plan Administrator shall be considered to be given or filed if delivered to the Plan Administrator or mailed by registered mail, postage prepaid, to the Plan Administrator.

5.4. Applicable Laws. The Plan shall be construed and administered in accordance with the laws of the State of Texas, to the extent that such laws are not preempted by ERISA or any other laws of the United States of America.

5.5. Gender and Number. Where the context requires, words in any gender shall include any other gender, words in the singular shall include the plural and the plural shall include the singular.

5.6. Benefits Determined as of Termination of Employment. Except as otherwise specifically provided in the Plan, the right to benefits under the Plan and the amount of benefits of a Participant who has terminated or terminates employment with the Company or a Subsidiary shall be determined in accordance with the provisions of the Plan as in effect immediately prior to that termination of employment.

5.7. Benefits Under Predecessor Plans. Notwithstanding any provision of this Plan to the contrary, nothing shall reduce or impair the interests of individuals with respect to benefits that are

being paid under a Predecessor Plan as of the effective date of this Plan without the consent of the affected Participant. Notwithstanding any provision of this Plan to the contrary, nothing shall reduce or impair the interests of individuals with respect to benefits that are accrued under a Predecessor Plan as of the effective date of this Plan without the consent of the affected Participant; provided, however, benefits accrued as of December 31, 2004 under the terms of a Predecessor Plan shall only be distributed and paid under the terms of Section 4 of this Plan.

5.8. Plan Not Contract of Employment. The Plan does not constitute a contract of employment, and nothing in the Plan or any action taken hereunder shall be construed as a contract of employment or to give any employee or Participant the right to be retained in the employ of the Company or a Subsidiary.

5.9. Benefits May Not Be Assigned or Alienated. Benefits payable to, or on account of, any individual under the Plan may not be voluntarily or involuntarily assigned, pledged, transferred, mortgaged, alienated, conveyed in advance of actual receipt or otherwise encumbered. No such amounts shall be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separation maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency. Any such attempted assignments to transfer shall be void. Prior to the death of any Participant, no other person shall have any rights under the Plan with respect to that Participant.

5.10. Beneficiary Designation. Participants shall have the right to designate a Beneficiary to receive their benefits under the Plan should such Participant die prior to commencement of or complete distribution of benefits hereunder. The AT&T Rules for Beneficiary Designations as may hereafter be amended from time to time (the "Rules"), which Rules are incorporated herein by this reference, shall apply. For purposes of this Plan, "Beneficiary" shall mean any beneficiary designated by a Participant to receive his or her benefits under this Plan in the event of the Participant's death, or as otherwise determined under the Rules to the extent the Participant fails to designate a beneficiary.

5.11. Amendments and Termination. The Plan may be amended or terminated at any time in accordance with the provisions of the AT&T Schedule of Authorizations, as amended from time-to-time, but such amendments or termination shall not adversely affect the rights of any Participant, without his or her consent, to any benefit payable under the Plan to which such Participant has previously become entitled prior to the effective date of such amendment or termination.

5.12. Tax Withholding. All applicable federal, state and local taxes required by law to be withheld shall be deducted from benefits paid under this Plan.

5.13. Offsets and Overpayments. If any overpayment is made by the Plan for any reason, the Plan shall have the right to recover such overpayment. The Participant shall cooperate fully with the Plan to recover any overpayment and provide any necessary information and required documents. If a Participant entitled to distribution of benefits hereunder owes any amount to AT&T or any Subsidiary, such amount may be withheld from benefits payable hereunder to satisfy such obligation. Any overpayment or Participant debt to AT&T or any Subsidiary may be deducted from future benefits payable to or on behalf of the Participant from this Plan.

Attachment A Predecessor Plans

1.

The AT&T Pension Benefit Make Up Plan No. 1, which is also the successor plan, effective January 1, 2000, to the SNET Pension Benefit Plan and, effective January 1, 1999, to the Pacific Telesis Group Excess Benefit Plan.

2.

Section 4.10.2 of the AT&T Pension Benefit Plan ? Non-Bargained Program, which are the 415 Excess Benefit Provisions of such plan

3.

The Ameritech Corporate Resource Supplemental Pension Plan, which is a successor to the Ameritech Senior Management Retirement and Survivor Protection Plan and was established by Ameritech Corporation effective as of January 1, 1986, which, in turn was an amendment, restatement and continuation of the following predecessor plans: the Ameritech Management Supplemental Pension Plan, the Ameritech Senior Management Non-Qualified Pension Plan, the Ameritech Mid-Career Pension Plan, and the retirement and survivor benefit provisions of the Ameritech Senior Management Long Term Disability and Survivor Protection Plan.

4.

The Ameritech Management Supplemental Pension Benefit Plan

5.

Effective January 1, 2009, The Cingular Wireless SBC Executive Transition Pension Make Up Plan and The Cingular Wireless SBC Executive 2005 Transition Pension Make Up Plan

Exhibit 10-kkk

AT&T INC.

2011 Incentive Plan

Article 1.

Establishment and Purpose.

1.1

Establishment of the Plan. AT&T Inc., a Delaware corporation (the "Company" or "AT&T"), hereby establishes an incentive compensation plan (the "Plan"), as set forth in this document.

1.2

Purpose of the Plan. The purpose of the Plan is to promote the success and enhance the value of the Company by linking the personal interests of Participants to those of the Company's shareowners, and by providing Participants with an incentive for outstanding performance.

1.3

Effective Date of the Plan. The Plan is effective on May 1, 2011.

Article 2.

Definitions. Whenever used in the Plan, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

(a) ?Applicable Law? means the legal requirements relating to the administration of options and share-based or performance-based awards under any applicable laws of the United States, any other country, and any provincial, state, or local subdivision, any applicable stock exchange or automated quotation system rules or regulations, as such laws, rules, regulations and requirements shall be in place from time to time.

(b) ?Award? means, individually or collectively, a grant or award under this Plan of Stock Options, Restricted Stock (including unrestricted Stock), Restricted Stock Units, Performance Units, or Performance Shares.

(c) ?Award Agreement? means an agreement which may be entered into by each Participant and the Company, setting forth the terms and provisions applicable to Awards granted to Participants under this Plan.

(d) ?Board? or ?Board of Directors? means the AT&T Board of Directors.

(e) ?Cause? means willful and gross misconduct on the part of an Employee that is materially and demonstrably detrimental to the Company or any Subsidiary as determined by the Company in its sole discretion.

(f) ?Change in Control? shall be deemed to have occurred if (1) any ?person? (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned directly or indirectly by the shareowners of the Company in substantially the same proportions as their ownership of stock of the Company, becomes the ?beneficial owner? (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing twenty percent (20%) or more of the total voting power represented by the Company?s then outstanding voting securities; or (2) during any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company and any new Director whose election by the Board of Directors or nomination for election by the Company?s shareowners was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or (3) the consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the

voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the shareowners of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.

(g) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(h) "Committee" means the committee or committees of the Board of Directors given authority to administer the Plan as provided in Article 3.

(i) "Director" means any individual who is a member of the AT&T Board of Directors.

(j) "Disability" means, absence of an Employee from work under the relevant Company or Subsidiary long term disability plan.

(k) "Employee" means any employee of the Company or of one of the Company's Subsidiaries.

"Employment" means the employment of an Employee by the Company or one of its Subsidiaries.

Directors who are not otherwise employed by the Company shall not be considered Employees under this Plan.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor Act thereto.

(m) "Exercise Price" means the price at which a Share may be purchased by a Participant pursuant to an Option, as determined by the Committee.

(n) "Fair Market Value" means the closing price on the New York Stock Exchange ("NYSE") for a Share on the relevant date, or if such date was not a trading day, the next preceding trading date, all as determined by the Company. A trading day is any day that the Shares are traded on the NYSE. In lieu of the foregoing, the Committee may, from time to time, select any other index or measurement to determine the Fair Market Value of Shares under the Plan, including but not limited to an average determined over a period of trading days.

(o) "Insider" means an Employee who is, on the relevant date, an officer, director, or ten percent (10%) beneficial owner of the Company, as those terms are defined under Section 16 of the Exchange Act.

(p) "Officer Level Employee" means a Participant who is an officer level Employee for compensation purposes as indicated on the records of AT&T.

(q) "Option" means an option to purchase Shares from AT&T.

(r) "Participant" means an Employee or former Employee who holds an outstanding Award granted under the Plan.

(s) "Performance Unit" and "Performance Share" each mean an Award granted to an Employee pursuant to Article 8 herein.

(t) "Retirement" or to "Retire" means the Participant's Termination of Employment for any reason other than death, Disability or for Cause, on or after the earlier of the following dates, or as otherwise provided by the Committee: (1) for Officer Level Employees, the date the Participant is at least age fifty-five (55) and has five (5) years of net credited service; or (2) the date the Participant has attained one of the following combinations of age and service, except as otherwise indicated below:

Net Credited Service

Age

10 years or more

65 or older

20 years or more

55 or older

25 years or more

50 or older

30 years or more

Any age

For purposes of this Plan only, Net Credited Service shall be calculated in the same manner as "Pension Eligibility Service" under the AT&T Pension Benefit Plan "Nonbargained Program" ("Pension Plan"), as that may be amended from time to time, except that service with an Employer shall be counted as though the Employer were a "Participating Company" under the Pension Plan and the Employee was a participant in the Pension Plan.

(u) "Senior Manager" means a Participant who is a senior manager for compensation purposes as indicated on the records of AT&T.

(v) "Shares" or "Stock" means the shares of common stock of the Company.

(w) "Subsidiary" means any corporation, partnership, venture or other entity in which AT&T holds, directly or indirectly, a fifty percent (50%) or greater ownership interest. The Committee may, at its sole discretion, designate, on such terms and conditions as the Committee shall determine, any other corporation, partnership, limited liability company, venture other entity a Subsidiary for purposes of this Plan.

(x) "Termination of Employment" or a similar reference means the event where the Employee is no longer an Employee of the Company or of any Subsidiary, including but not limited to where the employing company ceases to be a Subsidiary. With respect to any Award that provides "nonqualified deferred compensation" within the meaning of Section 409A of the Code, "Termination of Employment" shall mean a "separation from service" as defined under Section 409A of the Code.

Article 3.

Administration.

3.1

The Committee. Administration of the Plan shall be as follows:

(a) With respect to Insiders, the Plan and Awards hereunder shall be administered by the Human Resources Committee of the Board or such other committee as may be appointed by the Board for this purpose (each of the Human Resources Committee and such other committee is the "Disinterested Committee"), where each Director on such Disinterested Committee is a "Non-Employee Director," as that term is used in Rule 16b-3 under the Exchange Act (or any successor designation for determining the committee that may administer plans, transactions or awards exempt under Section 16(b) of the Exchange Act), as that rule may be modified from time to time.

(b) With respect to persons who are not Insiders, the Plan and Awards hereunder shall be administered by each of the Disinterested Committee and such other committee, if any, to which the Board may delegate such authority (such other Committee shall be the "Non-Insider Committee"), and each such Committee shall have full authority to administer the Plan and all Awards hereunder, except as otherwise provided herein or by the Board. The Disinterested Committee may, from time to

time, limit the authority of the Non-Insider Committee in any way. Any Committee may be replaced by the Board at any time.

(c) Except as otherwise indicated from the context, references to the "Committee" in this Plan shall be to either of the Disinterested Committee or the Non-Insider Committee.

3.2

Authority of the Committee. The Committee shall have complete control over the administration of the Plan and shall have the authority in its sole discretion to (a) exercise all of the powers granted to it under the Plan, (b) construe, interpret and implement the Plan, grant terms and grant notices, and all Award Agreements, (c) prescribe, amend and rescind rules and regulations relating to the Plan, including rules governing its own operations, (d) make all determinations necessary or advisable in administering the Plan, (e) correct any defect, supply any omission and reconcile any inconsistency in the Plan, (f) amend the Plan to reflect changes in applicable law (whether or not the rights of the holder of any Award are adversely affected, unless otherwise provided by the Committee), (g) grant Awards and determine who shall receive Awards, when such Awards shall be granted and the terms and conditions of such Awards, including, but not limited to, conditioning the exercise, vesting, payout or other term of condition of an Award on the achievement of Performance Goals (defined below), (h) unless otherwise provided by the Committee, amend any outstanding Award in any respect, not materially adverse to the Participant, including, without limitation, to (1) accelerate the time or times at which the Award becomes vested, unrestricted or may be exercised (and, in connection with such acceleration, the Committee may provide that any Shares acquired pursuant to such Award shall be Restricted Shares, which are subject to vesting, transfer, forfeiture or repayment provisions similar to those in the Participant's underlying Award), (2) accelerate the time or times at which shares of Common Stock are delivered under the Award (and, without limitation on the Committee's rights, in connection with such acceleration, the Committee may provide that any shares of Common Stock delivered pursuant to such Award shall be Restricted Shares, which are subject to vesting, transfer, forfeiture or repayment provisions similar to those in the Grantee's underlying Award), or (3) waive or amend any goals, restrictions or conditions applicable to such Award, or impose new goals, restrictions and (i) determine at any time whether, to what extent and under what circumstances and method or methods (1) Awards may be (A) settled in cash, shares of Stock, other securities, other Awards or other property (in which event, the Committee may specify what other effects such settlement will have on the Participant's Award), (B) exercised or (C) canceled, forfeited or suspended, (2) Shares, other securities, cash, other Awards or other property and other amounts payable with respect to an Award may be deferred either automatically or at the election of the Participant or of the Committee, or (3) Awards may be settled by the Company or any of its Subsidiaries or any of its or their designees.

No Award may be made under the Plan after April 30, 2021.

References to determinations or other actions by AT&T or the Company, herein, shall mean actions authorized by the Committee, the Chairman of the Board of AT&T, the Senior Executive Vice President of AT&T in charge of Human Resources or their respective successors or duly authorized delegates, in each case in the discretion of such person, provided, however, only the Disinterested Committee may take action with respect to Insiders with regard to granting or determining the terms of Awards or other matters that would require the Disinterested Committee to act in order to comply with Rule 16b-3 promulgated under the Exchange Act.

All determinations and decisions made by AT&T pursuant to the provisions of the Plan and all related orders or resolutions of the Board shall be final, conclusive, and binding on all persons, including but not limited to the Company, its stockholders, Employees, Participants, and their estates and beneficiaries.

Article 4.

Shares Subject to the Plan.

4.1

Number of Shares. Subject to adjustment as provided in Section 4.3 herein, the number of Shares available for issuance under the Plan shall not exceed ninety (90) million Shares. The Shares granted under this Plan may be either authorized but unissued or reacquired Shares. The Disinterested Committee shall have full discretion to determine the manner in which Shares available for grant are counted in this Plan.

4.2

Share Accounting. Without limiting the discretion of the Committee under this section, unless otherwise provided by the Disinterested Committee, the following rules will apply for purposes of the determination of the number of Shares available for grant under the Plan or compliance with the foregoing limits:

(a) If an outstanding Award for any reason expires or is terminated or canceled without having been exercised or settled in full, or if Shares acquired pursuant to an Award subject to forfeiture are forfeited under the terms of the Plan or the relevant Award, the Shares allocable to the terminated portion of such Award or such forfeited Shares shall again be available for issuance under the Plan.

(b) Shares shall not be deemed to have been issued pursuant to the Plan with respect to any portion of an Award that is settled in cash, other than an Option.

(c) If the exercise price of an Option is paid by tender to the Company, or attestation to the ownership, of Shares owned by the Participant, or an Option is settled without the payment of the exercise price, the number of shares available for issuance under the Plan shall be reduced by the gross number of shares for which the Option is exercised.

4.3

Adjustments in Authorized Plan Shares and Outstanding Awards. In the event of any merger, reorganization, consolidation, recapitalization, separation, split-up, liquidation, Share combination, Stock split, Stock dividend, or other change in the corporate structure of the Company affecting the Shares, an adjustment shall be made in the number and class of Shares which may be delivered under the Plan (including but not limited to individual limits), and in the number and class of and/or price of Shares subject to outstanding Awards granted under the Plan, and/or the number of outstanding Options, Shares of Restricted Stock, and Performance Shares (and Performance Units and other Awards whose value is based on a number of Shares) constituting outstanding Awards, as may be determined to be appropriate and equitable by the Disinterested Committee, in its sole discretion, to prevent dilution or enlargement of rights.

Article 5.

Eligibility and Participation.

5.1

Eligibility. All management Employees are eligible to receive Awards under this Plan.

5.2

Actual Participation. Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible Employees, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No Employee is entitled to receive an Award unless selected by the Committee.

Article 6.

Stock Options.

6.1

Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted to eligible Employees at any time and from time to time, and under such terms and conditions, as shall be determined by the Committee. In addition, the Committee may, from time to time, provide for the payment of dividend equivalents on Options, prospectively and/or retroactively, on such terms and conditions as the Committee may require. The Committee shall have discretion in determining the number of Shares subject to Options granted to each Employee; provided, however, that no single Employee may receive Options under this Plan for more than one percent (1%) of the Shares approved for issuance under this Plan during any calendar year. The Committee may not grant Incentive Stock Options, as described in Section 422 of the Code, under this Plan.

6.2

Form of Issuance. Each Option grant may be issued in the form of an Award Agreement and/or may be recorded on the books and records of the Company for the account of the Participant. If an Option is not issued in the form of an Award Agreement, then the Option shall be deemed granted as determined by the Committee. The terms and conditions of an Option shall be set forth in the Award Agreement, in the notice of the issuance of the grant, or in such other documents as the Committee shall determine. Such terms and conditions shall include the Exercise Price, the duration of the Option, the number of Shares to which an Option pertains (unless otherwise provided by the Committee, each Option may be exercised to purchase one Share), and such other provisions as the Committee shall determine.

6.3

Exercise Price. Unless a greater Exercise Price is determined by the Committee, the Exercise Price for each Option Awarded under this Plan shall be equal to one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted. Subject to adjustment as provided in Section 4.3 herein or as otherwise provided herein, the terms of an Option may not be amended to reduce the exercise price nor may Options be cancelled or exchanged for cash, other awards or Options with an exercise price that is less than the exercise price of the original Options .

6.4

Duration of Options. Each Option shall expire at such time as the Committee shall determine at the time of grant (which duration may be extended by the Committee); provided, however, that no Option shall be exercisable later than the tenth (10th) anniversary date of its grant. In the event the

Committee does not specify the expiration date of an Option, then such Option will expire on the tenth (10th) anniversary date of its grant, except as otherwise provided herein.

6.5

Vesting of Options. A grant of Options shall vest at such times and under such terms and conditions as determined by the Committee; provided, however, unless another vesting period is provided by the Committee at or before the grant of an Option, one-third of the Options will vest on each of the first three anniversaries of the grant; if one Option remains after equally dividing the grant by three, it will vest on the first anniversary of the grant, if two Options remain, then one will vest on each of the first two anniversaries. The Committee shall have the right to accelerate the vesting of any Option; however, the Chairman of the Board or the Senior Executive Vice President-Human Resources, or their respective successors, or such other persons designated by the Committee, shall have the authority to accelerate the vesting of Options for any Participant who is not an Insider.

6.6

Exercise of Options. Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant. Exercises of Options may be effected only on days and during the hours that the New York Stock Exchange is open for regular trading. The Company may change or limit the times or days Options may be exercised. If an Option expires on a day or at a time when exercises are not permitted, then the Options may be exercised no later than the immediately preceding date and time that the Options were exercisable.

An Option shall be exercised by providing notice to the designated agent selected by the Company (if no such agent has been designated, then to the Company), in the manner and form determined by the Company, which notice shall be irrevocable, setting forth the exact number of Shares with respect to which the Option is being exercised and including with such notice payment of the Exercise Price, as applicable. When an Option has been transferred, the Company or its designated agent may require appropriate documentation that the person or persons exercising the Option, if other than the Participant, has the right to exercise the Option. No Option may be exercised with respect to a fraction of a Share.

6.7

Payment. Unless otherwise determined by the Committee, the Exercise Price shall be paid in full at the time of exercise. No Shares shall be issued or transferred until full payment has been received or the next business day thereafter, as determined by AT&T.

The Committee may, from time to time, determine or modify the method or methods of exercising Options or the manner in which the Exercise Price is to be paid. Unless otherwise provided by the Committee in full or in part:

(a) Payment may be made in cash.

(b) Payment may be made by delivery of Shares owned by the Participant in partial (if in partial payment, then together with cash) or full payment.

(c) If the Company has designated a stockbroker to act as the Company's agent to process Option exercises, an Option may be exercised by issuing an exercise notice together with instructions to such stockbroker irrevocably instructing the stockbroker: (A) to immediately sell (which shall include an exercise notice that becomes effective upon execution of a sale order) a sufficient portion of the Shares to be received from the Option exercise to pay the Exercise Price of the Options being exercised and the required tax withholding, and (B) to deliver on the settlement date the portion of the proceeds of the sale equal to the Exercise Price and tax withholding to the Company. In the event the stockbroker sells any Shares on behalf of a Participant, the stockbroker shall be acting solely as the agent of the Participant, and the Company disclaims any responsibility for the actions of the stockbroker in making any such sales. No Shares shall be issued until the settlement date and until the proceeds (equal to the Exercise Price and tax withholding) are paid to the Company.

(d) At any time, the Committee may, in addition to or in lieu of the foregoing, provide that an Option may be "stock settled," which shall mean upon exercise of an Option, the Company may fully satisfy its obligation under the Option by delivering that number of shares of Stock found by taking the difference between (a) the FMV of the Stock on the exercise date, multiplied by the number of Options being exercised and (b) the total Exercise Price of the Options being exercised, and dividing such difference by the FMV of the Stock on the exercise date.

If payment is made by the delivery of Shares, the value of the Shares delivered shall be equal to the then most recent Fair Market Value of the Shares established before the exercise of the Option.

Restricted Stock may not be used to pay the Exercise Price.

6.8

Termination of Employment. Unless otherwise provided by the Committee, the following limitations on exercise of Options shall apply upon Termination of Employment:

(a) Termination by Death or Disability. In the event of the Participant's Termination of Employment by reason of death or Disability, all outstanding Options granted to that Participant shall immediately vest as of the date of Termination of Employment and may be exercised, if at all, no more than five (5) years from the date of the Termination of Employment, unless the Options, by their terms, expire earlier.

(b) Termination for Cause. In the event of the Participant's Termination of Employment by the Company for Cause, all outstanding Options held by the Participant shall immediately be forfeited to the Company and no additional exercise period shall be allowed, regardless of the vested status of the Options.

(c) Retirement or Other Termination of Employment. In the event of the Participant's Termination of Employment for any reason other than the reasons set forth in (a) or (b), above:

(i)

If upon the Participant's Termination of Employment, the Participant is eligible to Retire, then all outstanding unvested Options granted to that Participant shall immediately vest as of the date of the Participant's Termination of Employment;

(ii)

All outstanding Options which are vested as of the effective date of Termination of Employment may be exercised, if at all, no more than five (5) years from the date of Termination of Employment if the Participant is eligible to Retire, or three (3) months from the date of the Termination of Employment if the Participant is not eligible to Retire, as the case may be, unless in either case the Options, by their terms, expire earlier; and

(iii)

In the event of the death of the Participant after Termination of Employment, this paragraph (c) shall still apply and not paragraph (a), above.

(d) Options not Vested at Termination. Except as provided in paragraphs (a) and (c)(i), above, all Options held by the Participant which are not vested on or before the effective date of Termination of Employment shall immediately be forfeited to the Company (and the Shares subject to such forfeited Options shall once again become available for issuance under the Plan).

(e) Other Terms and Conditions. Notwithstanding the foregoing, the Committee may, in its sole

discretion, establish different, or waive, terms and conditions pertaining to the effect of Termination of Employment on Options, whether or not the Options are outstanding, but no such modification shall shorten the terms of Options issued prior to such modification or otherwise be materially adverse to the Participant.

6.9

Restrictions on Exercise and Transfer of Options. Unless otherwise provided by the Committee:

(a) During the Participant's lifetime, the Participant's Options shall be exercisable only by the Participant or by the Participant's guardian or legal representative. After the death of the Participant, except as otherwise provided by AT&T's Rules for Employee Beneficiary Designations, an Option shall only be exercised by the holder thereof (including, but not limited to, an executor or administrator of a decedent's estate) or his or her guardian or legal representative.

(b) No Option shall be transferable except: (i) in the case of the Participant, only upon the Participant's death and in accordance with the AT&T Rules for Employee Beneficiary Designations; and (ii) in the case of any holder after the Participant's death, only by will or by the laws of descent and distribution.

Article 7.

Restricted Stock.

7.1

Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock to eligible Employees in such amounts and upon such terms and conditions as the Committee shall determine. In addition to any other terms and conditions imposed by the Committee, vesting of Restricted Stock may be conditioned upon the achievement of Performance Goals in the same manner as provided in Section 8.4, herein, with respect to Performance Shares. No Employee may be awarded, in any calendar year, a number of Shares in the form of Restricted Stock (or Restricted Stock Units) exceeding one percent (1%) of the Shares approved for issuance under this Plan.

7.2

Restricted Stock Agreement. The Committee may require, as a condition to receiving a Restricted Stock Award, that the Participant enter into a Restricted Stock Award Agreement, setting forth the

terms and conditions of the Award. In lieu of a Restricted Stock Award Agreement, the Committee may provide the terms and conditions of an Award in a notice to the Participant of the Award, on the Stock certificate representing the Restricted Stock, in the resolution approving the Award, or in such other manner as it deems appropriate.

7.3

Transferability. Except as otherwise provided in this Article 7, and subject to any additional terms in the grant thereof, Shares of Restricted Stock granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until fully vested.

7.4

Restrictions. The Restricted Stock shall be subject to such vesting terms, including the achievement of Performance Goals (as described in Section 8.4), as may be determined by the Committee. Unless otherwise provided by the Committee, to the extent Restricted Stock is subject to any condition to vesting, if such condition or conditions are not satisfied by the time the period for achieving such condition has expired, such Restricted Stock shall be forfeited. The Committee may impose such other conditions and/or restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including but not limited to a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock and/or restrictions under applicable Federal or state securities laws; and may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions. The Committee may also grant Restricted Stock without any terms or conditions in the form of vested Stock Awards.

The Company shall also have the right to retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as the Shares are fully vested and all conditions and/or restrictions applicable to such Shares have been satisfied.

7.5

Removal of Restrictions. Except as otherwise provided in this Article 7 or otherwise provided in the grant thereof, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after completion of all conditions to vesting, if any. However, the Committee, in its sole discretion, shall have the right to immediately vest the shares and waive all or part of the restrictions and conditions with regard to all or part of the Shares held by any Participant at any time.

7.6

Voting Rights, Dividends and Other Distributions. Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights and shall receive all dividends and distributions paid with respect to such Shares. The Committee may require that dividends and other distributions, other than regular cash dividends, paid to Participants with respect to Shares of Restricted Stock be subject to the same restrictions and conditions as the Shares of Restricted Stock with respect to which they were paid. If any such dividends or distributions are paid in Shares, the Shares shall automatically be subject to the same restrictions and conditions as the Shares of Restricted Stock with respect to which they were paid.

7.7

Termination of Employment Due to Death or Disability. In the event of the Participant's Termination of Employment by reason of death or Disability, all restrictions imposed on outstanding Shares of Restricted Stock held by the Participant shall immediately lapse and the Restricted Stock shall immediately become fully vested as of the date of Termination of Employment.

7.8

Termination of Employment for Other Reasons. Unless otherwise provided by the Committee, in the event of the Participant's Termination of Employment for any reason other than those specifically set forth in Section 7.7 herein, all Shares of Restricted Stock held by the Participant which are not vested as of the effective date of Termination of Employment immediately shall be forfeited and returned to the Company.

7.9

Restricted Stock Units. In lieu of or in addition to Restricted Stock, the Committee may grant Restricted Stock Units under such terms and conditions as shall be determined by the Committee. Restricted Stock Units shall be subject to the same terms and conditions under this Plan as Restricted Stock except as otherwise provided in this Plan or as otherwise provided by the Committee. Except as otherwise provided by the Committee, the award shall be settled and pay out promptly upon vesting (to the extent permitted by Section 409A of the Code), and the Participant holding such Restricted Stock Units shall receive, as determined by the Committee, Shares (or cash equal to the Fair Market Value of the number of Shares as of the date the award becomes payable) equal to the number of such Restricted Stock Units. Restricted Stock Units shall not be transferable, shall have no voting rights, and shall not receive dividends, but shall, unless otherwise provided by the Committee, receive dividend equivalents at the time and at the same rate as dividends are paid on Shares with the same record and pay dates. Upon a Participant's Termination of Employment due

to Death or Disability, his or her Restricted Stock Units will vest, and in the case of Death, will pay out promptly, and in the case of Disability, will only pay out in accordance with the terms of the grant (without regard to the Termination due to Disability). If the Participant dies after Termination of Employment, vested Restricted Stock Units will be promptly paid out.

Article 8.

Performance Units and Performance Shares.

8.1

Grants of Performance Units and Performance Shares. Subject to the terms of the Plan, Performance Shares and Performance Units may be granted to eligible Employees at any time and from time to time, as determined by the Committee. The Committee shall have complete discretion in determining the number of Performance Units and/or Performance Shares Awarded to each Participant and the terms and conditions of each such Award.

8.2

Value of Performance Shares and Units.

(a) A Performance Share is equivalent in value to a Share. In any calendar year, no individual may be awarded Performance Shares having a potential payout of Shares exceeding one percent (1%) of the Shares approved for issuance under this Plan.

(b) A Performance Unit shall be equal in value to a fixed dollar amount determined by the Committee. In any calendar year, no individual may be Awarded Performance Units having a potential payout equivalent exceeding the Fair Market Value, as of the date of granting the Award, of one percent (1%) of the Shares approved for issuance under this Plan. The number of Shares equivalent to the potential payout of a Performance Unit shall be determined by dividing the maximum cash payout of the Award by the Fair Market Value per Share on the effective date of the grant. The Committee may denominate a Performance Unit Award in dollars instead of Performance Units. A Performance Unit Award may be referred to as a "Key Executive Officer Short Term Award."

8.3

Performance Period. The Performance Period for Performance Shares and Performance Units is the

period over which the Performance Goals are measured. The Performance Period is set by the Committee for each Award; however, in no event shall an Award have a Performance Period of less than one year.

8.4

Performance Goals. For each Award of Performance Shares or Performance Units, the Committee shall establish (and may establish for other Awards) performance objectives (?Performance Goals?) for the Company, its Subsidiaries, and/or divisions of any of foregoing, using the Performance Criteria and other factors set forth in (a) and (b), below. It may also use other criteria or factors in establishing Performance Goals in addition to or in lieu of the foregoing. A Performance Goal may be stated as an absolute value or as a value determined relative to an index, budget, prior period, similar measures of a peer group of other companies or other standard selected by the Committee.

Performance Goals shall include payout tables, formulas or other standards to be used in determining the extent to which the Performance Goals are met, and, if met, the number of Performance Shares and/or Performance Units which would be converted into Stock and/or cash (or the rate of such conversion) and distributed to Participants in accordance with Section 8.6. Unless previously canceled or reduced, Performance Shares and Performance Units which may not be converted because of failure in whole or in part to satisfy the relevant Performance Goals or for any other reason shall be canceled at the time they would otherwise be distributable. When the Committee desires an Award of Performance Shares, Performance Units, Restricted Stock or Restricted Stock Units to qualify under Section 162(m) of the Code, as amended, the Committee shall establish or modify the Performance Goals for the respective Award prior to or within 90 days of the beginning of the Performance Period relating to such Performance Goal, and not later than after twenty-five percent (25%) of such period has elapsed. For all other Awards, the Performance Goals must be established before the end of the respective Performance Period.

(a) The Performance Criteria which the Committee is authorized to use, in its sole discretion, are any of the following criteria or any combination thereof, including but not limited to the offset against each other of any combination of the following criteria:

(1)

Financial performance of the Company (on a consolidated basis), of one or more of its Subsidiaries, and/or a division of any of the foregoing. Such financial performance may be based on net income, Value Added (after- tax cash operating profit less depreciation and less a capital charge), EBITDA (earnings before interest, taxes, depreciation and amortization), revenues, sales, expenses, costs, gross margin, operating margin, profit margin, pre-tax profit, market share, volumes of a particular product or service or category thereof, including but not limited to the product?s life cycle (for

example, products introduced in the last two years), number of customers or subscribers, number of items in service, including but not limited to every category of access or other telecommunication or television lines, return on net assets, return on assets, return on capital, return on invested capital, cash flow, free cash flow, operating cash flow, operating revenues, operating expenses, and/or operating income.

(2)

Service performance of the Company (on a consolidated basis), of one or more of its Subsidiaries, and/or of a division of any of the foregoing. Such service performance may be based upon measured customer perceptions of service quality. Employee satisfaction, employee retention, product development, completion of a joint venture or other corporate transaction, completion of an identified special project, and effectiveness of management.

(3)

The Company's Stock price, return on stockholders' equity, total stockholder return (Stock price appreciation plus dividends, assuming the reinvestment of dividends), and/or earnings per Share.

(4)

Impacts of acquisitions, dispositions, or restructurings, on any of the foregoing.

(b) If the matters in a specific category below have a collective net impact (whether positive or negative) on net income, after taxes and available and collectible insurance, that exceed \$500 million in a calendar year, then such matters (as well as any related effects on cash flow, if applicable) shall be excluded in determining whether or the extent to which the relevant Performance Goals applicable to such year are met:

Categories:

(1) changes in accounting principles;

(2) extraordinary items;

(3) changes in Federal tax law;

(4) changes in the tax laws of the states;

(5) expenses caused by natural disasters, including but not limited to floods, hurricanes, and earthquakes;

(6) expenses resulting from intentionally caused damage to property of the Company or its Subsidiaries taken as a whole;

(7) non-cash accounting write-downs of goodwill and other intangible assets.

In addition, where matters in a specific category have a collective net impact (whether positive or negative) on net income, after taxes and available and collectible insurance, that exceed \$200 million but not \$500 million in a calendar year, then such matters (as well as any related effects on cash flow, if applicable) shall also be excluded in determining the achievement of the relevant Performance Goals but only if the combined net effect of matters in all such categories (exceeding \$200 million but not \$500 million) exceeds \$500 million.

Gains and losses related to the assets and liabilities from pension plans and other post retirement benefit plans (and any associated tax effects) shall be disregarded in determining whether or the extent to which a Performance Goal has been met.

Unless otherwise provided by the Committee at any time, no such adjustment shall be made for a current or former executive officer to the extent such adjustment would cause an Award to fail to satisfy the performance based exemption of Section 162(m) of the Code.

8.5

Dividend Equivalents on Performance Shares. Unless otherwise provided by the Committee, a cash payment (?Dividend Equivalent?) in an amount equal to the dividend payable on one Share shall be made to a Participant for each Performance Share held by such Participant on the record date for the

dividend. Such Dividend Equivalent, if any, will be payable at the time the relevant AT&T common stock dividend is payable or at such other time as determined by the Committee, and may be modified or terminated by the Committee at any time. Notwithstanding the foregoing, unless otherwise provided by the Committee, Dividend Equivalents paid with respect to Performance Shares granted to an Officer Level Employee shall only be paid on the number of Performance Shares actually distributed and such payment shall be made when the related Performance Shares are distributed.

8.6

Form and Timing of Payment of Performance Units and Performance Shares. As soon as practicable after the applicable Performance Period has ended and all other conditions (other than Committee actions) to conversion and distribution of a Performance Share and/or Performance Unit Award have been satisfied (or, if applicable, at such other time determined by the Committee at or before the establishment of the Performance Goal), the Committee shall determine whether and the extent to which the Performance Goals were met for the applicable Performance Units and Performance Shares. If Performance Goals have been met, then the number of Performance Units and Performance Shares to be converted into Stock and/or cash and distributed to the Participants shall be determined in accordance with the Performance Goals for such Awards, subject to any limits imposed by the Committee. Payment of Performance Units and Performance Shares shall be made in a single lump sum, as soon as reasonably administratively possible following the determination of the number of Shares or amount of cash to which the Participant is entitled but not later than the 15th day of the third month following the end of the applicable Performance Period. Performance Units will be distributed to Participants in the form of cash. Performance Shares will be distributed to Participants in the form of fifty percent (50%) Stock and fifty percent (50%) Cash, or at the Participant's election, one hundred percent (100%) Stock or one hundred percent (100%) Cash. In the event the Participant is no longer an Employee at the time of the distribution, then the distribution shall be one hundred (100%) in cash, provided the Participant may elect to take fifty percent (50%) or one hundred percent (100%) in Stock. At any time prior to the distribution of the Performance Shares and/or Performance Units, unless otherwise provided by the Committee or prohibited by this Plan (such as in the case of a Change in Control), the Committee shall have the authority to reduce or eliminate the number of Performance Units or Performance Shares to be converted and distributed, or to cancel any part or all of a grant or award of Performance Units or Performance Shares, or to mandate the form in which the Award shall be paid (i.e., in cash, in Stock or both, in any proportions determined by the Committee).

Unless otherwise provided by the Committee, any election to take a greater amount of cash or Stock with respect to Performance Shares must be made in the calendar year prior to the calendar year in which the Performance Shares are distributed.

For the purpose of converting Performance Shares into cash and distributing the same to the holders thereof (or for determining the amount of cash to be deferred), the value of a Performance Share shall be the Fair Market Value of a Share on the date the Committee authorizes the payout of Awards. Performance Shares to be distributed in the form of Stock will be converted at the rate of one (1) Share per Performance Share.

8.7

Termination of Employment Due to Death. In the event of the Participant's Termination of Employment by reason of death during a Performance Period, the Participant shall receive a lump sum payout of the related outstanding Performance Units and Performance Shares calculated as if all unfinished Performance Periods had ended with one hundred percent (100%) of the Performance Goals achieved, valued as of the first business day of the calendar year following the date of Termination of Employment and payable as soon thereafter as reasonably possible but not later than the 15th day of the third month after the end of the calendar year in which such death occurred. Where the amount or part of Dividend Equivalents is determined by the number of Performance Shares that are paid out or is otherwise determined by a performance measure, and the related Performance Period for the Dividend Equivalents was not completed at death, then the Dividend Equivalents will be calculated as though one hundred percent (100%) of the goals were achieved and paid as soon as reasonably possible.

8.8

Termination of Employment for Other than Death or Disability. Unless the Committee determines otherwise at any time, in the event of the Participant's Termination of Employment during the Performance Period for a reason other than due to death or Disability (and other than for Cause), then upon such Termination, the amount of the Participant's Performance Units and number of Performance Shares shall be adjusted; the revised Awards shall be determined by multiplying the amount of the Performance Units and the number of Performance Shares, as applicable, by the number of months the Participant worked at least one day during the respective Performance Period divided by the number of months in the Performance Period, to be paid, if at all, at the same time and under the same terms that such outstanding Performance Units or Performance Shares would otherwise be paid; provided, however, if the Participant is not Retirement eligible and Terminates Employment voluntarily during the Performance Period for a grant of Performance Units or Performance Shares, then such Award shall be cancelled upon such Termination. A Termination shall be deemed to be voluntary if it is recorded as such on the records of the Company, as determined by the Company in its sole discretion.

8.9

Termination of Employment for Cause. In the event of the Termination of Employment of a Participant by the Company for Cause, all Performance Units and Performance Shares shall be forfeited by the Participant to the Company.

8.10

Nontransferability. Performance Units and Performance Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than in accordance with the AT&T Rules for Employee Beneficiary Designations.

Article 9.

Beneficiary Designation. In the event of the death of a Participant, distributions or Awards under this Plan, other than Restricted Stock, shall pass in accordance with the AT&T Rules for Employee Beneficiary Designations, as the same may be amended from time to time. A Participant's most recent Beneficiary Designation that is applicable to awards under the 1996 Stock and Incentive Plan, the 2001 Incentive Plan, or the 2006 Incentive Plan will also apply to distributions or awards under this Plan unless and until the Participant provides to the contrary in accordance with the procedures set forth in such Rules.

Article 10.

Employee Matters.

10.1

Employment Not Guaranteed. Nothing in the Plan shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's Employment at any time, nor confer upon any Participant any right to continue in the employ of the Company or one of its Subsidiaries.

10.2

Participation. No Employee shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

10.3

Loyalty Conditions and Enforcement. This section relates solely to Awards granted to a Participant who is an Officer Level Employee or a Senior Manager as of the date the Award is made.

(a) Each Award under the Plan is intended to closely align the Participant's long-term interests with those of the Company and its shareholders, and the conditions set forth in subsections (b) or (d) hereof (collectively, the "Loyalty Conditions") are intended to protect the Company's critical need for each Participant's loyalty to the Company and its shareholders. If any Participant does not comply with a Loyalty Condition, either during employment or within the periods described below following Termination of Employment for any reason, then the Participant is acting contrary to the long-term interests of the Company, and there will be a failure of the consideration on which the Participant received any Award or Awards pursuant to the Plan. Accordingly, unless otherwise provided in the Award, as a condition of such Award, the Participant is deemed to agree that he shall not, without obtaining the written consent of AT&T in advance, violate the Loyalty Provisions of this Section 10.3. Unless otherwise expressly provided in an Award Agreement, if the Participant violates a Loyalty Condition, then the Company may terminate any outstanding, unexercised, unexpired, unpaid, or deferred Awards ("Award Termination"), rescind any exercise, payment or delivery pursuant to any Award or Awards ("Rescission"), or recapture any cash or Shares (whether restricted or unrestricted) issued pursuant to any Award or Awards, or proceeds from the Participant's sale of such Shares ("Recapture").

(b) During the Participant's employment with the Company and any of its Subsidiaries and for a period of two years after a Termination of Employment for any reason, a Participant shall not, without the Company's prior written authorization, (i) disclose to anyone outside the Company or use, other than in the Company's business, any Confidential Information, or (ii) disclose any trade secrets of the Company, as that term is defined under Applicable Law, for as long as such information is not generally known to the Company's competitors through no fault or negligence of the Participant.

"Confidential Information" means all information belonging to, or otherwise relating to the business of the Company, which is not generally known, regardless of the manner in which it is stored or conveyed to Participant, and which the Company has taken reasonable measures under the circumstances to protect from unauthorized use or disclosure. Confidential Information includes trade secrets as well as other proprietary knowledge, information, know-how, and non-public intellectual property rights, including unpublished or pending patent applications and all related patent rights, formulae, processes, discoveries, improvements, ideas, conceptions, compilations of data, and data, whether or not patentable or copyrightable and whether or not it has been conceived, originated, discovered, or developed in whole or in part by Participant. For example, Confidential Information includes, but is not limited to, information concerning the Company's business plans, budgets, operations, products, strategies, marketing, sales, inventions, designs, costs, legal strategies, finances, employees, customers, prospective customers, licensees, or licensors; information received

from third parties under confidential conditions; or other valuable financial, commercial, business, technical or marketing information concerning the Company, or any of the products or services made, developed or sold by the Company. Confidential Information does not include information that (i) was generally known to the public at the time of disclosure; (ii) was lawfully received by Participant from a third party; (iii) was known to Participant prior to receipt from the Company; or (iv) was independently developed by Participant or independent third parties; in each of the foregoing circumstances, this exception applies only if such public knowledge or possession by an independent third party was without breach by Participant or any third party of any obligation of confidentiality or non-use, including but not limited to the obligations and restrictions set forth in this Agreement.

(c) Coincidentally with the exercise, receipt of payment, or delivery of cash or Shares pursuant to an Award, the Company may require that the Participant shall give a certification to the Company in writing if the Participant is not for any reason in full compliance with the terms and conditions of the Plan, including its Loyalty Conditions. If a Termination of Employment has occurred for any reason, the Participant's certification shall state the name and address of the Participant's then-current employer or any entity for which the Participant performs business services and the Participant's title, and shall identify any organization or business in which the Participant owns an equity interest of greater than five percent.

(d) If the Company determines, in its sole and absolute discretion, that (i) a Participant has violated any of the Loyalty Conditions, or (ii) during his or her employment by the Company or any of its Subsidiaries, or within two years after the Termination of Employment for any reason, a Participant has engaged in any of the following conduct:

(i)

owned, operated or controlled, or participated in the ownership, operation or control of, any business enterprise (including, without limitation, any corporation, partnership, proprietorship or other venture) that competes with the Company in the Restricted Business (defined below) anywhere in the Restricted Territory (defined below);

(ii)

become employed as an officer or executive by any business enterprise (including, without limitation, any corporation, partnership, proprietorship or other venture) that competes with the Company in the Restricted Business anywhere in the Restricted Territory, if such employment or engagement requires Participant to compete against the Company in the Restricted Business;

(iii)

solicited any nonclerical employee of the Company with whom the Participant had Contact during his or her employment to terminate employment with the Company; or

(iv)

committed any breach of Participant's fiduciary duty or the duty of loyalty, as determined by Applicable Law,

then the Committee may, in its sole and absolute discretion, impose an Award Termination, Rescission, and/or Recapture with respect to any or all of the Participant's Awards, including any Shares or cash associated therewith, or any proceeds thereof. For purposes of this Agreement, the term "Restricted Business" means the business of providing communications or connectivity services, including both wireless and wire-lined telephone, messaging, Internet, data, and related services; the term "Restricted Territory" shall mean the state in which the Participant maintained his or her principal office with the Company on the date the Award was granted; and the term "Contact" means interaction between the Participant and the nonclerical employee during performance of Participant's job responsibilities on behalf of the Company.

(e) Within ten days after receiving notice from the Company of any such activity described in subsection (d) above, the Participant shall deliver to the Company the cash or Shares acquired pursuant to any and all Awards, or, if Participant has sold the Shares, the gain realized, or payment received as a result of the rescinded exercise, payment, or delivery; provided, that if the Participant returns Shares that the Participant purchased pursuant to the exercise of an Option (or the gains realized from the sale of such Shares), the Company shall promptly refund the exercise price, without earnings or interest, that the Participant paid for the Shares. Any payment by the Participant to the Company pursuant to this Section shall be made either in cash or by returning to the Company the number of Shares that the Participant received in connection with the rescinded exercise, payment, or delivery. It shall not be a basis for Award Termination, Rescission or Recapture if, after a Termination of Employment, the Participant purchases, as an investment or otherwise, stock or other securities of an organization engaged in the Restricted Business, so long as (i) such stock or other securities are listed upon a recognized securities exchange or traded over the counter, and (ii) such investment does not represent more than a ten percent (10%) equity interest in the organization or business.

(f) Notwithstanding the foregoing provisions of this Section, the Company has sole and absolute discretion not to require Award Termination, Rescission and/or Recapture, and its determination not to require Award Termination, Rescission and/or Recapture with respect to any particular act by a particular Participant or Award shall not in any way reduce or eliminate the Company's authority to require Award Termination, Rescission and/or Recapture with respect to any other act or Participant

or Award. Nothing in this Section shall be construed to impose obligations on the Participant to refrain from engaging in lawful competition with the Company after the Participant's Termination of Employment that does not violate subsections (b) or (d) of this Section, other than any obligations that are part of any separate agreement between the Company and the Participant or that arise under Applicable Law.

(g) All administrative and discretionary authority given to the Company under this Section shall be exercised by the most senior human resources executive of the Company or such other person or committee (including without limitation the Committee) as the Committee may designate from time to time.

(h) If any provision within this Section is determined to be unenforceable or invalid under any applicable law, such provision will be applied to the maximum extent permitted by Applicable Law, and shall automatically be deemed amended in a manner consistent with its objectives and any limitations required under Applicable Law.

10.4

Reimbursement of Company for Unearned or Ill-gotten Gains. Unless otherwise specifically provided in an Award Agreement, and to the extent permitted by Applicable Law, if the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, the Committee may, without obtaining the approval or consent of the Company's shareholders or of any Participant, require that any Participant who personally engaged in one of more acts of fraud or misconduct that have caused or partially caused the need for such restatement or any current or former chief executive officer, chief financial officer, or executive officer, regardless of their conduct, to reimburse the Company for all or any portion of any Awards granted or settled under this Plan (with each such case being a ?Reimbursement?), or the Committee may require the Termination or Rescission of, or the Recapture associated with, any Award, in excess of the amount the Participant would have received under the accounting restatement.

Article 11.

Change in Control.

Unless the Committee provides otherwise prior to the grant of an Award, upon the occurrence of a

Change in Control, the following shall apply to such Award:

(a) Any and all Options granted hereunder to a Participant immediately shall become vested and exercisable upon the Termination of Employment of the Participant by the Company or by the Participant for "Good Reason";

(b) Any Restriction Periods and all restrictions imposed on Restricted Stock and Restricted Stock Units shall lapse and they shall immediately become fully vested upon the Termination of Employment of the Participant by the Company or by the Participant for "Good Reason" provided, Restricted Stock Units shall be settled in accordance with the terms of the grant without regard to the Change in Control unless the Change in Control constitutes a "change in control event" within the meaning of Section 409A of the Code and such Termination of Employment occurs within two years following such Change in Control, in which case the Restricted Stock Units shall be settled and paid out with such Termination of Employment;

(c) Unless otherwise determined by the Committee, the payout of Performance Units and Performance Shares shall be determined exclusively by the attainment of the Performance Goals established by the Committee, which may not be modified after the Change in Control, and AT&T shall not have the right to reduce the Awards for any other reason;

(d) For purposes of this Plan, "Good Reason" means in connection with a termination of employment by a Participant within two (2) years following a Change in Control, (a) a material adverse alteration in the Participant's position or in the nature or status of the Participant's responsibilities from those in effect immediately prior to the Change in Control, or (b) any material reduction in the Participant's base salary rate or target annual bonus, in each case as in effect immediately prior to the Change in Control, or (c) the relocation of the Participant's principal place of employment to a location that is more than fifty (50) miles from the location where the Participant was principally employed at the time of the Change in Control or materially increases the time of the Participant's commute as compared to the Participant's commute at the time of the Change in Control (except for required travel on the Company's business to an extent substantially consistent with the Participant's customary business travel obligations in the ordinary course of business prior to the Change in Control).

In order to invoke a Termination of Employment for Good Reason, a Participant must provide written notice to AT&T or the Employer with respect to which the Participant is employed or providing services of the existence of one or more of the conditions constituting Good Reason within ninety (90) days following the Participant's knowledge of the initial existence of such condition or conditions, specifying in reasonable detail the conditions constituting Good Reason, and AT&T shall have thirty (30) days following receipt of such written notice (the "Cure Period") during which it may remedy the condition. In the event that AT&T or the Employer fails to remedy the condition constituting Good

Reason during the applicable Cure Period, the Participant's separation from service? (within the meaning of Section 409A of the Code) must occur, if at all, within two (2) years following such Cure Period in order for such termination as a result of such condition to constitute a Termination of Employment for Good Reason.

Article 12.

Amendment, Modification, and Termination.

12.1

Amendment, Modification, and Termination. The Board or the Disinterested Committee may at any time and from time to time, alter or amend the Plan or any Award in whole or in part or suspend or terminate the Plan in whole or in part.

12.2

Awards Previously Granted. No termination, amendment, or modification of the Plan or any Award (other than Performance Shares or Performance Units) shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award; provided, however, that any such modification made for the purpose of complying with Section 409A of the Code may be made by the Company without the consent of any Participant.

12.3

Delay in Payment. To the extent required in order to avoid the imposition of any interest and/or additional tax under Section 409A(a)(1)(B) of the Code, any amount that is considered deferred compensation under the Plan or Agreement and that is required to be postponed pursuant to Section 409A of the Code, following the a Participant's Termination of Employment shall be delayed for six months if a Participant is deemed to be a "specified employee" as defined in Section 409A(a)(2)(i)(B) of the Code; provided that, if the Participant dies during the postponement period prior to the payment of the postponed amount, the amounts withheld on account of Section 409A shall be paid to the executor or administrator of the decedent's estate within 60 days following the date of his death. A "Specified Employee" means any Participant who is a "key employee" (as defined in Code Section 416(i) without regard to paragraph (5) thereof), as determined by AT&T in accordance with its uniform policy with respect to all arrangements subject to Code Section 409A, based upon the twelve (12) month period ending on each December 31st (such twelve (12) month period is referred to below as the "identification period"). All Participants who are determined to be key employees under Code Section 416(i) (without regard to paragraph (5) thereof) during the identification period shall be

treated as Specified Employees for purposes of the Plan during the twelve (12) month period that begins on the first day of the 4th month following the close of such identification period.

Article 13.

Withholding.

13.1

Tax Withholding. Unless otherwise provided by the Committee, the Company shall deduct or withhold an amount sufficient to satisfy Federal, state, and local taxes (including but not limited to the Participant's employment tax obligations) required by law to be withheld with respect to any taxable event arising or as a result of this Plan (Withholding Taxes).

13.2

Share Withholding. Unless otherwise provided by the Committee, upon the exercise of Options, the lapse of restrictions on Restricted Stock, the distribution of Performance Shares in the form of Stock, or any other taxable event hereunder involving the transfer of Stock to a Participant, the Company shall withhold Stock equal in value, using the Fair Market Value on the date determined by the Company to be used to value the Stock for tax purposes, to the Withholding Taxes applicable to such transaction.

Any fractional Share of Stock payable to a Participant shall be withheld as additional Federal withholding, or, at the option of the Company, paid in cash to the Participant.

Unless otherwise determined by the Committee, when the method of payment for the Exercise Price is from the sale by a stockbroker pursuant to Section 6.7(b)(ii), herein, of the Stock acquired through the Option exercise, then the tax withholding shall be satisfied out of the proceeds. For administrative purposes in determining the amount of taxes due, the sale price of such Stock shall be deemed to be the Fair Market Value of the Stock.

If permitted by the Committee, prior to the end of any Performance Period a Participant may elect to have a greater amount of Stock withheld from the distribution of Performance Shares to pay withholding taxes; provided, however, the Committee may prohibit or limit any individual election or all such elections at any time.

Alternatively, or in combination with the foregoing, the Committee may require Withholding Taxes to be paid in cash by the Participant or by the sale of a portion of the Stock being distributed in

connection with an Award, or by a combination thereof.

Article 14.

Successors.

All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

Article 15.

Legal Construction.

15.1

Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

15.2

Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

15.3

Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

15.4

Errors. At any time AT&T may correct any error made under the Plan without prejudice to AT&T. Such corrections may include, among other things, changing or revoking an issuance of an Award.

15.5

Elections and Notices. Notwithstanding anything to the contrary contained in this Plan, all elections and notices of every kind shall be made on forms prepared by AT&T or the General Counsel, Secretary or Assistant Secretary, or their respective delegates or shall be made in such other manner as permitted or required by AT&T or the General Counsel, Secretary or Assistant Secretary, or their respective delegates, including but not limited to elections or notices through electronic means, over the Internet or otherwise. An election shall be deemed made when received by AT&T (or its designated agent, but only in cases where the designated agent has been appointed for the purpose of receiving such election), which may waive any defects in form. AT&T may limit the time an election may be made in advance of any deadline.

Where any notice or filing required or permitted to be given to AT&T under the Plan, it shall be delivered to the principal office of AT&T, directed to the attention of the Senior Executive Vice President-Human Resources of AT&T or his or her successor. Such notice shall be deemed given on the date of delivery.

Notice to the Participant shall be deemed given when mailed (or sent by telecopy) to the Participant's work or home address as shown on the records of AT&T or, at the option of AT&T, to the Participant's e-mail address as shown on the records of AT&T.

It is the Participant's responsibility to ensure that the Participant's addresses are kept up to date on the records of AT&T. In the case of notices affecting multiple Participants, the notices may be given by general distribution at the Participants' work locations.

15.6

Governing Law. To the extent not preempted by Federal law, the Plan, and all awards and agreements hereunder, and any and all disputes in connection therewith, shall be governed by and construed in accordance with the substantive laws of the State of Texas, without regard to conflict or choice of law principles which might otherwise refer the construction, interpretation or enforceability of this Plan to the substantive law of another jurisdiction.

15.7

Venue. Because awards under the Plan are granted in Texas, records relating to the Plan and awards thereunder are located in Texas, and the Plan and awards thereunder are administered in Texas, the Company and the Participant to whom an award under this Plan is granted, for themselves and their successors and assigns, irrevocably submit to the exclusive and sole jurisdiction and venue of the state or federal courts of Texas with respect to any and all disputes arising out of or relating to

this Plan, the subject matter of this Plan or any awards under this Plan, including but not limited to any disputes arising out of or relating to the interpretation and enforceability of any awards or the terms and conditions of this Plan. To achieve certainty regarding the appropriate forum in which to prosecute and defend actions arising out of or relating to this Plan, and to ensure consistency in application and interpretation of the Governing Law to the Plan, the parties agree that (a) sole and exclusive appropriate venue for any such action shall be an appropriate federal or state court in Dallas County, Texas, and no other, (b) all claims with respect to any such action shall be heard and determined exclusively in such Texas court, and no other, (c) such Texas court shall have sole and exclusive jurisdiction over the person of such parties and over the subject matter of any dispute relating hereto and (d) that the parties waive any and all objections and defenses to bringing any such action before such Texas court, including but not limited to those relating to lack of personal jurisdiction, improper venue or forum non conveniens.

15.8

409A Compliance. Awards under the Plan may be structured to be exempt from or be subject to Section 409A of the Code. To the extent that Awards granted under the Plan are subject to Section 409A of the Code, the Plan will be construed and administered in a manner that enables the Plan and such Awards to comply with the provisions of Section 409A of the Code.

Exhibit 12

AT&T, INC.

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

Dollars in millions

Year Ended

2010

2009

2008

2007

2006

Earnings:

Income (loss) from continuing operations before income taxes

\$ 18,238	\$ 18,518	\$ (4,572)	\$ 27,186	\$ 18,638
-----------	-----------	-------------	-----------	-----------

Equity in net income of affiliates included above

(762)	(734)	(819)	(692)	(2,043)
--------	--------	--------	--------	----------

Fixed Charges

4,786	5,071	4,943	4,489	2,166
-------	-------	-------	-------	-------

Distributed income of equity affiliates

161	317	164	395	97
-----	-----	-----	-----	----

Interest capitalized

(772)	(740)	(659)	(171)	(73)
--------	--------	--------	--------	-------

Earnings, as adjusted

\$ 21,651	\$ 22,432	\$ (943)	\$ 31,207	\$ 18,785
-----------	-----------	-----------	-----------	-----------

Fixed Charges:

Interest expense

\$ 2,994	\$ 3,368	\$ 3,369	\$ 3,460	\$ 1,800
----------	----------	----------	----------	----------

Interest capitalized

772	740	659	171	73
-----	-----	-----	-----	----

Dividends on preferred securities

-	-	4	3	3
---	---	---	---	---

Portion of rental expense representative of interest factor

1,020	963	911	855	290
-------	-----	-----	-----	-----

Fixed Charges

\$ 4,786	\$ 5,071	\$ 4,943	\$ 4,489	\$ 2,166
----------	----------	----------	----------	----------

Ratio of Earnings to Fixed Charges

4.52	4.42	(0.19)	6.95	8.67
------	------	---------	------	------

Selected Financial and Operating Data

Dollars in millions except per share amounts

At December 31 or for the year ended:

2010

2009 1 2008 1 2007 1 2006 1,2

As Adjusted

Financial Data

Operating revenues

\$ 124,280 \$ 122,513 \$ 123,443 \$ 118,322 \$ 62,518

Operating expenses

\$ 104,707 \$ 101,513 \$ 125,133 \$ 89,181 \$ 44,521

Operating income (loss)

\$ 19,573 \$ 21,000 \$ (1,690) \$ 29,141 \$ 17,997

Interest expense

\$ 2,994 \$ 3,368 \$ 3,369 \$ 3,460 \$ 1,800

Equity in net income of affiliates

\$ 762 \$ 734 \$ 819 \$ 692 \$ 2,043

Other income (expense) ? net

\$ 897 \$ 152 \$ (332) \$ 814 \$ 398

Income tax expense (benefit)

\$ (1,162) \$ 6,091 \$ (2,210) \$ 9,917 \$ 6,088

Net Income (Loss)

\$ 20,179 \$ 12,447 \$ (2,364) \$ 17,228 \$ 12,547

Less: Net Income Attributable to Noncontrolling Interest

\$ (315) \$ (309) \$ (261) \$ (196) \$ (5)

Net Income (Loss) Attributable to AT&T

\$ 19,864 \$ 12,138 \$ (2,625) \$ 17,032 \$ 12,542

Earnings (Loss) Per Common Share:

Net Income (Loss) Attributable to AT&T

\$ 3.36 \$ 2.06 \$ (0.44) \$ 2.78 \$ 3.23

Earnings (Loss) Per Common Share ? Assuming Dilution:

Net Income (Loss) Attributable to AT&T

\$ 3.35 \$ 2.05 \$ (0.44) \$ 2.76 \$ 3.22

Total assets

\$ 268,488 \$ 268,312 \$ 264,700 \$ 274,951 \$ 270,118

Long-term debt

\$ 58,971 \$ 64,720 \$ 60,872 \$ 57,253 \$ 50,062

Total debt

\$ 66,167 \$ 72,081 \$ 74,990 \$ 64,112 \$ 59,795

Construction and capital expenditures

\$ 20,302	\$ 17,294	\$ 20,290	\$ 17,831	\$ 8,337
-----------	-----------	-----------	-----------	----------

Dividends declared per common share

\$ 1.69	\$ 1.65	\$ 1.61	\$ 1.47	\$ 1.35
---------	---------	---------	---------	---------

Book value per common share

\$ 18.94	\$ 17.28	\$ 16.35	\$ 19.07	\$ 18.52
----------	----------	----------	----------	----------

Ratio of earnings to fixed charges⁶

4.52	4.42	-	6.95	8.67
------	------	---	------	------

Debt ratio

37.1 %	41.4 %	43.8 %	35.7 %	34.1 %
--------	--------	--------	--------	--------

Weighted average common shares outstanding (000,000)

5,913	5,900	5,927	6,127	3,882
-------	-------	-------	-------	-------

Weighted average common shares

outstanding with dilution (000,000)

5,938	5,924	5,958	6,170	3,902
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End of period common shares outstanding (000,000)

5,911	5,902	5,893	6,044	6,239
-------	-------	-------	-------	-------

Operating Data

Wireless connections (000)³

95,536	85,120	77,009	70,052	60,962
--------	--------	--------	--------	--------

In-region network access lines in service (000)

43,678	49,392	55,610	61,582	66,469
--------	--------	--------	--------	--------

Broadband connections (000)^{4,5}

17,755	17,254	16,265	14,802	12,170
--------	--------	--------	--------	--------

Number of employees

266,590	282,720	302,660	309,050	304,180
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1 Financial data for 2006 ? 2009 has been adjusted to reflect our voluntary change in accounting for pension and postretirement benefits. See Note 1 to consolidated financial statements.

2 Our 2006 income statement amounts reflect results from BellSouth Corporation (BellSouth) and AT&T Mobility LLC (AT&T Mobility), formerly Cingular Wireless LLC, for the two days following the December 29, 2006 acquisition. Our 2006 balance sheet and end-of-year metrics include 100% of BellSouth and AT&T Mobility. Prior to the December 29, 2006 BellSouth acquisition, AT&T Mobility was a joint venture in which we owned 60% and was accounted for under the equity method.

3 The number presented represents 100% of AT&T Mobility cellular/PCS customers.

4 Broadband connections include in-region DSL lines, in-region U-verse High Speed Internet access,

satellite broadband and 3G LaptopConnect cards.

5 Prior-period amounts restated to conform to current period reporting methodology.

6 Earnings were not sufficient to cover fixed charges in 2008. The deficit was \$943.

1

Management's Discussion and Analysis of Financial Condition and Results of Operations

Dollars in millions except per share amounts

For ease of reading, AT&T Inc. is referred to as "we," "us," "AT&T" or the "Company" throughout this document, and the names of the particular subsidiaries and affiliates providing the services generally have been omitted. AT&T is a holding company whose subsidiaries and affiliates operate in the communications services industry both in the United States and internationally, providing wireless and wireline telecommunications services and equipment as well as directory advertising and publishing services. You should read this discussion in conjunction with the consolidated financial statements and accompanying notes. A reference to a "Note" in this section refers to the accompanying Notes to Consolidated Financial Statements. In the tables throughout this section, percentage increases and decreases that equal or exceed 100% are not considered meaningful and are denoted with a dash.

RESULTS OF OPERATIONS

Consolidated Results Our financial results are summarized in the table below. We then discuss factors affecting our overall results for the past three years. These factors are discussed in more detail in our "Segment Results" section. We also discuss our expected revenue and expense trends for 2011 in the "Operating Environment and Trends of the Business" section.

Percent Change

2010 vs.

2009 vs.

2010

2009

2008

2009

2008

Operating Revenues

\$ 124,280	\$ 122,513	\$ 123,443	1.4 %	(0.8)%
------------	------------	------------	-------	---------

Operating expenses

Cost of services and sales

52,263	50,571	56,688	3.3	(10.8)
--------	--------	--------	-----	---------

Selling, general and administrative

33,065	31,427	48,772	5.2	(35.6)
--------	--------	--------	-----	---------

Depreciation and amortization

19,379	19,515	19,673	(0.7)	(0.8)
--------	--------	--------	--------	--------

Total Operating Expenses

104,707	101,513	125,133	3.1	(18.9)
---------	---------	---------	-----	---------

Operating Income (Loss)

19,573	21,000	(1,690)	(6.8)	-
--------	--------	----------	--------	---

Interest expense

2,994	3,368	3,369	(11.1)	-
-------	-------	-------	---------	---

Equity in net income of affiliates

762	734	819	3.8	(10.4)
-----	-----	-----	-----	---------

Other income (expense) ? net

897	152	(332)	-	-
-----	-----	--------	---	---

Income (loss) from continuing operations before income taxes

18,238	18,518	(4,572)	(1.5)	-
--------	--------	----------	--------	---

Income (loss) from continuing operations

19,400	12,427	(2,362)	56.1	-
--------	--------	----------	------	---

Net Income (Loss) Attributable to AT&T

\$ 19,864	\$ 12,138	\$ (2,625)	63.7 %	-
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Overview

Operating income decreased \$1,427, or 6.8%, in 2010 and increased \$22,690 in 2009. Our operating income margin was 15.7% in 2010, down from 17.1% in 2009 and up from (1.4)% in 2008. Operating income includes actuarial losses related to pension and postretirement benefit plans, which were non-cash losses of \$2,521 in 2010, \$215 in 2009 and \$25,150 in 2008 (see Note 11). Excluding the impacts of these actuarial losses, operating income in 2010 reflected growth in wireless service revenue, driven mostly by our subscriber growth and growth in wireless data revenue, along with an increase in wireline data revenue resulting from growth in Internet Protocol (IP) data revenue, partially offset by the continuing decline in voice and print directory advertising revenue. Excluding the variance in actuarial losses in 2009 as compared to 2008, operating income in 2009 decreased primarily due to the decline in voice revenues and directory print advertising and the higher cost of equipment sales.

In January 2011, we announced a change in our method of recognizing actuarial gains and losses for pension and other postretirement benefits for all benefit plans. As part of this change, we have elected to immediately recognize the non-cash actuarial gains and losses in our operating results in the year in which the gains and losses occur. The most significant factors contributing to actuarial gains and losses are actual returns on plan assets, the interest rate used to discount our benefit obligations and actual healthcare cost experience. We have applied this change retrospectively, adjusting all prior periods. See "Significant Accounting Policies and Estimates" and Note 1 for further discussion of the change and the impact to our operating results.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Dollars in millions except per share amounts

Operating revenues increased \$1,767, or 1.4%, in 2010 and decreased \$930, or 0.8%, in 2009. Revenues in 2010 reflect the continued growth in wireless service revenue, driven mostly by our increase in average subscribers along with a significant increase in wireless data revenue, stemming from higher integrated device sales and customer usage. Adding to the increase, we had higher wireline data revenue largely due to growth in IP-related services, driven by AT&T U-verseSM (U-verse) subscriber growth. These increases were partially offset by the continuing decline in voice revenues, due to decreasing access lines, and a decline in print directory advertising revenue. The decline in 2009 reflects decreases in voice and directory revenue, partially offset by growth in

wireless service revenue along with an increase in wireline data revenue.

The declines in our voice and advertising revenues reflect continuing economic pressures on our customers as well as increasing competition. Total switched access lines decreased 11.6% in 2010 and 11.2% in 2009. Customers disconnecting access lines switched to wireless, Voice over Internet Protocol (VoIP) and cable offerings or terminated service permanently as businesses closed or consumers left residences. While we lose wireline voice revenues, we have the opportunity to increase wireless service or wireline data revenues should these customers choose us as their wireless or VoIP provider. We also continue to expand our VoIP service for customers who have access to our U-verse video service.

Cost of services and sales expenses increased \$1,692, or 3.3%, in 2010 and decreased \$6,117, or 10.8%, in 2009. Excluding the increase of more than \$700 in expense related to the previously discussed actuarial loss, expenses increased in 2010 primarily due to higher wireless integrated device costs, higher interconnect and network system costs, and higher Universal Service Fund (USF) costs. Partially offsetting these increases were lower service- and financing-related costs associated with our pension and postretirement benefits (referred to as "pension/OPEB expenses"), a decrease in other employee-related costs and lower traffic compensation. Excluding the decrease of almost \$8,000 in expense related to the actuarial loss, expense increases in 2009 were primarily due to higher equipment costs related to advanced integrated devices and increased pension/OPEB expenses.

Selling, general and administrative expenses increased \$1,638, or 5.2%, in 2010 and decreased \$17,345, or 35.6%, in 2009. Excluding an increase of almost \$1,600 in expense related to the actuarial loss, expenses were higher in 2010 primarily due to increases in advertising and various support expenses. These increases were mostly offset by lower bad debt expense along with lower pension/OPEB expenses and other employee-related costs. Excluding the decrease of almost \$17,000 in expense related to the actuarial loss, the decrease in 2009 was primarily due to declines in employee-related costs resulting from workforce reductions, decreases in materials and supplies expense along with wireless advertising and promotional expenses. These decreases were partially offset by increased pension/OPEB expenses, and higher commissions, customer service costs and IT/interconnect costs resulting from wireless subscriber growth along with increased support for data services and integrated devices.

Depreciation and amortization expenses decreased \$136, or 0.7%, in 2010 and \$158, or 0.8%, in 2009. The decreases in 2010 and 2009 were primarily due to lower amortization of intangibles related to customer relationships associated with acquisitions, partially offset by higher depreciation related to capital spending for network upgrades and expansion.

Interest expense decreased \$374, or 11.1%, in 2010 and \$1 in 2009. The decline in interest expense for 2010 was primarily due to a decrease in our average debt balances, along with a decrease in our weighted average interest rate.

Equity in net income of affiliates increased \$28, or 3.8%, in 2010 and decreased \$85, or 10.4%, in 2009. The 2010 increase was primarily due to improved results at América Móvil, S.A. de C.V. (América Móvil). The 2009 decrease was primarily due to foreign currency translation losses at América Móvil, Telefonos de México, S.A. de C.V. (Telmex), and Telmex Internacional, S.A.B. de C.V. (TI), partially offset by improved results at América Móvil.

Other income (expense) ? net We had other income of \$897 in 2010 and \$152 in 2009, and other expense of \$332 in 2008. Results for 2010 included a \$658 gain on the exchange of TI shares for América Móvil shares, \$197 gain on the sale of investments and \$110 of interest and leveraged lease income, partially offset by \$98 of investment impairments.

Other income for 2009 included a \$112 gain on the sale of investments, \$100 of interest and leveraged lease income, and \$42 of gains on the sale of a professional services business, partially offset by \$102 of investment impairments. Other expense for 2008 included losses of \$467 related to investment impairments, partially offset by \$156 of interest and leveraged lease income.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Dollars in millions except per share amounts

Income tax expense decreased \$7,253 in 2010 and increased \$8,301 in 2009. The decrease in income tax in 2010 resulted primarily from a settlement with the Internal Revenue Service (IRS) related to a 2008 restructuring of our wireless operations, which decreased our income taxes by \$8,300. This income tax benefit was partially offset by a \$995 charge recorded during the first quarter of 2010 to reflect the deferred tax impact of enacted U.S. healthcare legislation (see Note 10). Our 2009 income tax expense increased as a result of an increase in our Income from Continuing Operations Before Income Taxes, primarily due to a decrease in actuarial losses on our pension and postretirement benefit plans. This increase was partially offset by the recognition of income tax benefits related to audit issues and judicial developments. Our effective tax rate (benefit) in 2010 was (6.4)%, compared to 32.9% in 2009 and 48.3% in 2008.

Income (loss) from discontinued operations, net of tax increased \$759 in 2010 and \$22 in 2009. The increase in 2010 was primarily attributable to the gain of \$769 on our third-quarter 2010 sale of our subsidiary Sterling Commerce Inc. (Sterling).

Segment Results

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. Our operating segment results presented in Note 4 and discussed below for each segment follow our internal management reporting. We analyze our various operating segments based on segment income before income taxes. We make our capital allocations decisions primarily based on the network (wireless or wireline) providing services. Actuarial gains and losses from pension and other postretirement benefits, interest expense and other income (expense) ? net, are managed only on a total company basis and are, accordingly, reflected only in consolidated results. Each segment?s percentage of total segment operating revenue and income calculations is derived from our segment results table in Note 4. We have four reportable segments: (1) Wireless, (2) Wireline, (3) Advertising Solutions and (4) Other.

The Wireless segment accounted for approximately 47% of our 2010 total segment operating revenues as compared to 44% in 2009 and 67% of our 2010 total segment income as compared to 63% in 2009. This segment uses our nationwide network to provide consumer and business customers with wireless voice and advanced data communications services.

The Wireline segment accounted for approximately 49% of our 2010 total segment operating revenues as compared to 52% in 2009 and 34% of our 2010 total segment income as compared to 38% in 2009. This segment uses our regional, national and global network to provide consumer and business customers with landline voice and data communications services, AT&T U-verse TV, high-speed broadband and voice services and managed networking to business customers. Additionally, we receive commissions on sales of satellite television services offered through our agency arrangements.

The Advertising Solutions segment accounted for approximately 3% of our 2010 total segment operating revenues as compared to 4% in 2009 and 4% of our 2010 total segment income as compared to 6% in 2009. This segment includes our directory operations, which publish Yellow and White Pages directories and sell directory advertising, Internet-based advertising and local search.

The Other segment accounted for approximately 1% of our 2010 and 2009 total segment operating revenues. Since segment operating expenses exceeded revenue in both years, a segment loss was incurred in both 2010 and 2009. This segment includes results from customer information services,

our portion of the results from our international equity investments and all corporate and other operations. Also included in the Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated, including interest cost and expected return on pension and postretirement benefits assets. In May 2010, we announced the sale of Sterling, which we closed in August 2010. The Other segment results for all periods shown have been restated to exclude the results of Sterling, which are now reflected in discontinued operations (see Note 2).

In January 2011, we announced a change in our method of recognizing actuarial gains and losses for pension and other postretirement benefits as well as the attribution of those benefit costs to our segments (see Note 1). Historically, the total benefit costs were attributed to each segment. As part of the benefit accounting change, the service cost and the amortization of prior service costs, which represent the benefits earned by active employees during the period, will continue to be attributed to the segment in which the employee is employed, while interest cost and expected return on assets will now be recorded in the Other segment as those financing activities are managed on a corporate level. Actuarial gains and losses resulting from the remeasurement of our pension and postretirement benefit plans, which generally only occurs in the fourth quarter, will be reflected in AT&T's consolidated results only. We have adjusted prior-period segment information to conform to the current period's presentation.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Dollars in millions except per share amounts

Historically, intersegment activity had been reported as revenue in the billing segment and operating expense in the purchasing segment. Upon consolidation, the intersegment revenue and expense were eliminated with the consolidated results reflecting the cash operating and depreciation expense of providing the intersegment service. As part of AT&T's ongoing initiatives to manage its business from an external customer perspective, we no longer report intersegment revenue and report the cash operating and depreciation expense related to intersegment activity in the purchasing segment, which provided services to the external customer. While this change did not affect AT&T's total consolidated results, the impact to each operating segment varied. In particular, the Wireless segment, as a purchaser of network, IT and other services from the Wireline segment, experienced a reduction in cash operating expense partially offset by increased depreciation expense, with the net result being increased operating margins. This change was effective with the reporting of operating results for the quarter ended March 31, 2010. We have applied this change retrospectively, adjusting prior-period segment information.

The following sections discuss our operating results by segment. We discuss capital expenditures for each segment in "Liquidity and Capital Resources."

Wireless Segment Results

Percent Change

2010 vs.

2009 vs.

2010

2009

2008

2009

2008

Segment operating revenues

Service

\$ 53,510	\$ 48,563	\$ 44,249	10.2 %	9.7 %
-----------	-----------	-----------	--------	-------

Equipment

4,990	4,941	4,925	1.0	0.3
-------	-------	-------	-----	-----

Total Segment Operating Revenues

58,500	53,504	49,174	9.3	8.8
--------	--------	--------	-----	-----

Segment operating expenses

Operations and support

36,746	33,631	31,530	9.3	6.7
--------	--------	--------	-----	-----

Depreciation and amortization

6,497	6,043	6,025	7.5	0.3
-------	-------	-------	-----	-----

Total Segment Operating Expenses

43,243	39,674	37,555	9.0	5.6
--------	--------	--------	-----	-----

Segment Operating Income

15,257	13,830	11,619	10.3	19.0
--------	--------	--------	------	------

Equity in Net Income of Affiliates

9	9	6	-	50.0		
Segment Income						
\$ 15,266	\$ 13,839	\$ 11,625		10.3 %	19.0 %	

5

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Dollars in millions except per share amounts

The following table highlights other key measures of performance for the Wireless segment:

2010

2009

2008

2010 vs.

2009

2009 vs.

2008

Wireless Customers (000)

95,536	85,120	77,009	12.2 %	10.5 %
--------	--------	--------	--------	--------

Net Customer Additions (000)¹

8,853	7,278	6,699	21.6 %	8.6 %
-------	-------	-------	--------	-------

Total Churn

1.31 %	1.47 %	1.70 %
--------	--------	--------

(16) BP

(23) BP

Postpaid Customers (000)

68,041	64,627	59,653	5.3 %	8.3 %
--------	--------	--------	-------	-------

Net Postpaid Customer Additions (000)¹

2,153	4,199	4,523	(48.7)%	(7.2)%
-------	-------	-------	----------	---------

Postpaid Churn

1.09 %	1.13 %	1.18 %
--------	--------	--------

(4) BP

(5) BP

Prepaid Customers (000)

6,524	5,350	6,106	21.9 %	(12.4)%
-------	-------	-------	--------	----------

Net Prepaid Customer Additions (000)¹

952	(801)	71	-	-
-----	--------	----	---	---

Reseller Customers (000)

11,645	10,439	8,589	11.6 %	21.5 %
--------	--------	-------	--------	--------

Net Reseller Customer Additions (000)¹

1,140	1,803	1,102	(36.8)%	63.3 %
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Connected Device Customers (000)

9,326	4,704	2,661	98.3 %	76.8 %
-------	-------	-------	--------	--------

Net Connected Device Customer Additions (000)

4,608	2,077	1,003	-	-
-------	-------	-------	---	---

¹ Excludes merger and acquisition-related additions during the period.

Wireless Metrics

Customer Additions As of December 31, 2010, we served 95.5 million wireless customers. Higher net customer additions (net additions) in 2010 and 2009 were primarily attributable to higher net connected devices additions and additions in our reseller customer business. Connected devices, such as eReaders, security systems, fleet management and global positioning systems, as well as tablets (predominantly reflected in our prepaid customer category) are data-centric devices, with customers typically on lower-priced data-only plans compared with customers on our postpaid plans. During 2010, we also continued to see an increase in gross and net additions related to the sale of integrated devices (handsets which allow Internet access as well as voice). Lower net postpaid additions in 2010 and 2009 reflected slowing growth in the industry subscriber base and lower postpaid churn throughout the industry. We expect revenue growth to continue to shift from voice toward data revenues with increasing penetration rates for integrated devices and additional sales of data-centric devices.

Average service revenue per user (ARPU) declined 1.8% in 2010, reflecting strong growth in

connected devices and tablet subscribers, who typically have a lower ARPU compared to ARPU generated by our other customers. ARPU growth was flat in 2009, due to increased data services ARPU growth offsetting declining voice and other service ARPU. Data services ARPU increased 14.7% in 2010 and 22.0% in 2009. We expect continued revenue growth from data services, as more customers purchase integrated devices and data-centric devices, and as we continue to expand our network. Voice and other service ARPU declined 8.6% and 6.5% in 2010 and 2009.

ARPU from postpaid customers increased 2.9% in 2010 and 2.8% in 2009, reflecting usage of more advanced integrated devices by these customers, evidenced by an increase in postpaid data services ARPU of 19.3% in 2010 and 23.7% in 2009. Of our total postpaid customers, 61.0% now use integrated devices, up from 46.8% a year earlier. The growth in postpaid data services ARPU in 2010 and 2009 was partially offset by a 4.1% decrease in 2010 and a 4.0% decrease in 2009 in postpaid voice and other service ARPU. Postpaid voice and other service ARPU declined due to lower access and airtime charges, roaming revenues, and long-distance usage. Continued growth in our family plans (FamilyTalk® Plans) customer base, which has lower ARPU than traditional postpaid customers, has also contributed to these declines. We expect continued pressure on voice and other service ARPU.

Churn The effective management of customer churn (churn rate) is critical to our ability to maximize revenue growth and to maintain and improve margins. Churn rate is calculated by dividing the aggregate number of wireless customers who cancel service during a period by the total number of wireless customers at the beginning of that period. The churn rate for an annual period is equal to the average of the churn rate for each month of that period. Ongoing improvement in our total and postpaid churn rates contributed to our net additions in 2010 and 2009. These churn rate declines reflect network enhancements and broader coverage, more affordable rate plans and exclusive devices, continued growth in FamilyTalk® Plans, and free mobile-to-mobile calling among our wireless customers. Data-centric device customers, who generally have the lowest churn rate among our wireless customers, also contributed to overall churn improvement due to their increased share of net additions for 2010 and 2009.

The wireless industry continues to mature. Accordingly, we believe that future wireless growth will increasingly depend on our ability to offer innovative services and devices. To attract and retain customers, we offer a wide variety of service plans in addition to offering a broad handset line. Our postpaid customers typically sign a two-year contract, which includes discounted handsets and early termination fees. We also offer data plans at different price levels, beginning as low as fifteen dollars per month, to attract a wide variety of customers and to differentiate us from our competitors. Many of our customers are on FamilyTalk® Plans or business plans, which provide for service on multiple handsets at discounted rates, and such subscribers tend to have higher retention and lower churn rates. As of December 31, 2010, more than 80% of our postpaid subscribers are on FamilyTalk® Plans or business discount plans. Such offerings are intended to encourage existing customers to upgrade their current services and/or add connected devices, attract customers from other providers, and minimize customer churn. In fact, for 2010, over 65% of our smartphone handsets were purchased by existing AT&T customers.

We offer a large variety of handsets, including at least 18 smartphones (including Apple iPhones, our most popular models) with advanced operating systems from eight manufacturers. As technology evolves, rapid changes are occurring in the handset and device industry, with the continual introduction of new models or significant revisions of existing models. We believe offering a wide variety of handsets reduces dependence on any single product as these products evolve. From time to time, we offer and have offered attractive handsets on an exclusive basis. As these exclusivity arrangements end, we expect to continue to offer such handsets (based on historical industry practice), and we believe our service plan offerings will help to retain our customers by providing incentives not to move to a new carrier. As noted above, more than 80% of our postpaid subscribers are on FamilyTalk® Plans or business discount plans that would involve moving the whole group to a new carrier. Moreover, the vast majority of postpaid subscribers (including FamilyTalk® Plan users) are allowed to accumulate unused minutes (known as rollover minutes), a feature that is currently not offered by other major postpaid carriers in the United States, and users would lose these minutes if they switched carriers. As is common in the industry, most of our phones are designed to work only with our wireless technology, requiring customers who desire to move to a new carrier with a different technology to purchase a new device. In addition, many of our handsets would not work or would lose some functionality if they were used on another carrier's network that also used Global System for Mobile Communications (GSM) technology, requiring the customer to acquire another handset. Although exclusivity arrangements are important to us, such arrangements may not provide a competitive advantage over time, as the industry continues to introduce new devices and services. Also, while the expiration of any of our current exclusivity arrangements could increase churn and reduce postpaid customer additions, we do not expect any such termination to have a material impact on our Wireless segment income, consolidated operating margin or our cash from operations.

Wireless Operating Results

Our Wireless segment operating income margin was 26.1% in 2010, compared to 25.8% in 2009 after increasing from 23.6% in 2008. The margin growth in 2010 and 2009 was primarily due to higher data revenues generated by our customers during those years, partially offset by the higher selling costs associated with integrated device activations. The rate of margin growth flattened in 2010 due to a significant number of customers upgrading their handsets during the second half of the year. While we subsidize the sales prices of various integrated devices, we expect to recover that cost over time from increased usage of the devices (especially data usage by the customer).

Service revenues are comprised of local voice and data services, roaming, long-distance and other revenue. Service revenues increased \$4,947, or 10.2%, in 2010 and \$4,314, or 9.7%, in 2009. The increases for these periods consisted of the following:

.

Data service revenues increased \$4,052, or 28.7%, in 2010 and \$3,539, or 33.4%, in 2009. The increases were primarily due to the increased number of subscribers and heavier text and multimedia messaging and Internet access by subscribers using integrated devices and other data-centric devices, such as eReaders, tablets, and mobile navigation devices. Data service revenues represented 34.0% of our Wireless segment service revenues in 2010, an increase from 29.1% in 2009, and 23.9% in 2008.

.

Voice and other service revenues increased \$895, or 2.6%, in 2010 and \$775, or 2.3%, in 2009. The increases were due to an 11.1% increase in the average number of wireless customers in 2010 and a 9.4% increase in 2009, partially offset by declining ARPU for these services in both periods.

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Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Dollars in millions except per share amounts

Equipment revenues increased \$49, or 1.0%, in 2010 and \$16, or 0.3%, in 2009. In both periods, higher sales and upgrades of postpaid integrated devices exceeded lower traditional handset devices in connection with promotions.

Operations and support expenses increased \$3,115, or 9.3%, in 2010 and \$2,101, or 6.7%, in 2009.

The increase in 2010 was primarily due to the following:

.

Equipment costs increased \$1,340 and commission expenses increased \$132 driven by record integrated device sales and upgrades.

.

Interconnect, USF and network system costs increased \$1,103 due to higher network traffic, network enhancement efforts, revenue growth and a USF rate increase.

.

Selling expenses (other than commissions) increased \$554, primarily due to increased advertising.

.

Administrative expenses increased \$432 due in part to higher leasing, legal, and benefits costs.

These increases were partially offset by bad debt expense and customer service cost decreases, totaling \$353, and reseller service costs and long-distance cost decreases, totaling \$93, due to lower usage.

The increase in 2009 was primarily due to the following:

.

Equipment costs increased \$1,246 and commission expenses increased \$112 driven by the higher cost of acquiring and selling more advanced integrated devices compared to prior years.

.

Interconnect, USF and network system costs increased \$435 due to higher network traffic, network enhancement efforts, revenue growth, and a USF rate increase.

.

Administrative expenses increased \$291 due in part to higher information technology and finance costs.

.

Bad debt expense and customer service costs increased \$274 due to customer growth.

These increases were partially offset by selling expense (other than commissions) decreases totaling

\$139, attributable to lower traditional handset sales exceeding the impact of the sale of advanced integrated devices, and long-distance and reseller services cost decreases totaling \$134 due to usage and rate declines.

Depreciation and amortization increased \$454, or 7.5%, in 2010 and \$18, or 0.3%, in 2009.

Depreciation expense increased \$751, or 17.0%, in 2010 primarily due to increased capital spending for network upgrades and expansion and depreciation for assets acquired with our acquisition of Centennial Communications Corp. (Centennial), partially offset by certain network assets becoming fully depreciated. Amortization expense decreased \$297, or 18.4%, in 2010 primarily due to lower amortization of intangibles for customer lists related to acquisitions, partially offset by an increase in customer lists amortization related to the Centennial acquisition.

Depreciation expense increased \$468, or 11.8%, in 2009 due to ongoing capital spending for network upgrades and expansion, partially offset by certain network assets becoming fully depreciated.

Amortization expense decreased \$450, or 21.8%, in 2009 due to lower amortization of intangibles attributable to our acquisition of BellSouth Corporation (BellSouth), partially offset by amortization of intangible assets attributable to subscribers added in the November 2009 acquisition of Centennial and the 2007 acquisition of Dobson Communications Corporation.

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Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Dollars in millions except per share amounts

Wireline
Segment Results

Percent Change

2010 vs.

2009 vs.

2010

2009

2008

2009

2008

Segment operating revenues

Voice

\$ 28,315	\$ 32,324	\$ 37,322	(12.4)%	(13.4)%
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Data

27,479	25,561	24,416	7.5	4.7
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Other

5,408	5,629	6,152	(3.9)	(8.5)
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Total Segment Operating Revenues

61,202	63,514	67,890	(3.6)	(6.4)
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Segment operating expenses

Operations and support

41,008	42,352	44,817	(3.2)	(5.5)
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Depreciation and amortization

12,371	12,743	12,786	(2.9)	(0.3)
--------	--------	--------	--------	--------

Total Segment Operating Expenses

53,379	55,095	57,603	(3.1)	(4.4)
--------	--------	--------	--------	--------

Segment Operating Income

7,823	8,419	10,287	(7.1)	(18.2)
-------	-------	--------	--------	---------

Equity in Net Income of Affiliates

11	17	19	(35.3)	(10.5)
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Segment Income

\$ 7,834	\$ 8,436	\$ 10,306	(7.1)%	(18.1)%
----------	----------	-----------	---------	----------

Operating Margin Trends

Our Wireline segment operating income margin was 12.8% in 2010, compared to 13.3% in 2009 and 15.2% in 2008. Results for 2010 and 2009 reflect revenue declines that exceeded expense declines. Our Wireline segment operating income decreased \$596, or 7.1%, in 2010 and decreased \$1,868, or 18.2%, in 2009. Our operating income continued to be pressured by access line declines due to

economic pressures on our consumer and business wireline customers and increased competition, as customers either reduced usage or disconnected traditional landline services and switched to alternative technologies, such as wireless and VoIP. Our strategy is to offset these line losses by increasing non-access-line-related revenues from customer connections for data, video and voice. Additionally, we have the opportunity to increase Wireless segment revenues if customers choose AT&T Mobility as an alternative provider. The wireline operating margins are declining primarily due to reduced voice revenue, partially offset by continued growth in data revenue.

Decreases in wireline operating expenses reflect reduced pension/OPEB and other employee-related costs and savings from our continuing cost-control initiatives and workforce reductions.

Voice revenues decreased \$4,009, or 12.4%, in 2010 and \$4,998, or 13.4%, in 2009 primarily due to economic pressures and declining demand for traditional voice services by our consumer and business customers. Included in voice revenues are revenues from local voice, long-distance (including international) and local wholesale services. Voice revenues do not include VoIP revenues, which are included in data revenues.

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Local voice revenues decreased \$2,280, or 11.5%, in 2010 and \$2,737, or 12.2%, in 2009. The decrease in 2010 was driven primarily by an 11.6% decline in switched access lines and a decrease in average local voice revenue per user. The decrease in 2009 was driven primarily by an 11.2% decline in switched access lines and a decrease in average local voice revenue per user. We expect our local voice revenue to continue to be negatively affected by increased competition from alternative technologies, the disconnection of additional lines and economic pressures.

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Long-distance revenues decreased \$1,562, or 13.9%, in 2010 and \$2,036, or 15.3%, in 2009 primarily due to a net decrease in demand for long-distance service, due to slower demand from business and consumer customers, which decreased revenues \$1,239 in 2010 and \$1,491 in 2009. Additionally, expected declines in the number of national mass-market customers decreased revenues \$331 in 2010 and \$546 in 2009.

Data revenues increased \$1,918, or 7.5%, in 2010 and \$1,145, or 4.7%, in 2009. Data revenues accounted for approximately 45% of wireline operating revenues in 2010, 40% in 2009 and 36% in 2008. Data revenues include transport, IP and packet-switched data services.

.

IP data revenues increased \$2,494, or 19.1%, in 2010 and \$1,986, or 17.9%, in 2009 primarily driven by AT&T U-verse expansion, broadband additions and growth in IP-based strategic business services, which include Ethernet and application services. U-verse video revenues increased \$1,227 in 2010 and \$1,039 in 2009, strategic business services increased \$648 in 2010 and \$582 in 2009 and broadband high-speed Internet access revenue increased \$446 in 2010 and \$311 in 2009. The increase in IP data revenues in 2010 and 2009 reflects continued growth in the customer base and migration from other traditional circuit-based services.

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Traditional packet-switched data services, which include frame relay and asynchronous transfer mode services, decreased \$431, or 21.6%, in 2010 and \$521, or 20.7%, in 2009. This decrease is primarily due to lower demand as customers continue to shift to IP-based technology such as Virtual Private Networks (VPN), DSL and managed Internet services, and the continuing weak economic conditions. We expect these traditional, circuit-based services to continue to decline as a percentage of our overall data revenues.

Other operating revenues decreased \$221, or 3.9%, in 2010 and \$523, or 8.5%, in 2009. Major items included in other operating revenues are integration services and customer premises equipment, government-related services and outsourcing, which account for more than 60% of total other revenue for all periods.

Operations and support expenses decreased \$1,344, or 3.2%, in 2010 and \$2,465, or 5.5%, in 2009. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks and personnel costs, such as salary, wage and bonus accruals. Costs in this category include our repair technicians and repair services, certain network planning and engineering expenses, information technology and property taxes. Operations and support expenses also include bad debt expense; advertising costs; sales and marketing functions, including customer service centers; real estate costs, including maintenance and utilities on all buildings; credit and collection functions; and corporate support costs, such as finance, legal, human resources and external affairs. Pension/OPEB expenses, net of amounts capitalized as part of construction labor, are also included to the extent that they are associated with these employees.

The 2010 decrease was primarily due to the following:

.

Pension/OPEB service cost and other employee-related expense of \$734. This decrease was primarily related to reduction in workforce and changes in future retiree benefits.

.

Traffic compensation of \$452.

.

Contract services of \$314.

.

Bad debt expense of \$178 due to lower business revenue and improvements in cash collections.

The decreases were partially offset by increased cost of sales, primarily related to U-verse related expenses of \$369.

The 2009 decrease was primarily due to the following:

.

Employee-related costs of \$1,182, primarily related to workforce reductions.

.

Traffic compensation, including portal fees, of \$655.

.

Nonemployee-related expenses, such as bad debt expense, materials and supplies costs of \$441.

.

Contract services of \$134.

Depreciation and amortization expenses decreased \$372, or 2.9%, in 2010 and \$43, or 0.3%, in 2009. Both decreases were primarily related to lower amortization of intangibles for customer lists associated with acquisitions.

Dollars in millions except per share amounts

Supplemental Information

Telephone, Wired Broadband and Video Connections Summary

Our switched access lines and other services provided by our local exchange telephone subsidiaries at December 31, 2010, 2009 and 2008, are shown below and trends are addressed throughout this segment discussion.

Percent Change

2010 vs.

2009 vs.

(in 000s)

2010

2009

2008

2009

2008

Switched Access Lines¹

Retail consumer

22,515	26,378	30,614	(14.6)%	(13.8)%
--------	--------	--------	----------	----------

Retail business²

18,733	20,247	21,954	(7.5)	(7.8)
--------	--------	--------	--------	--------

Retail Subtotal²

41,248	46,625	52,568	(11.5)	(11.3)
--------	--------	--------	---------	---------

Wholesale Subtotal²

	2,367	2,685	2,924	(11.8)	(8.2)
Total Switched Access Lines ^{3,7}					
	43,678	49,392	55,610	(11.6)	(11.2)
Total Retail Consumer Voice Connections ⁶					
	24,195	27,332	30,838	(11.5)	(11.4)
Total Wireline Broadband Connections ⁴					
	16,310	15,789	15,077	3.3	4.7
Satellite service ⁵					
	1,930	2,174	2,190	(11.2)	(0.7)
U-verse video					
	2,987	2,065	1,045	44.6	97.6
Video Connections					
	4,917	4,239	3,235	16.0 %	31.0 %

1 Represents access lines served by AT&T's Incumbent Local Exchange Carriers (ILECs) and affiliates.

2 Prior-period amounts restated to conform to current period reporting methodology.

3 Total switched access lines includes payphone access lines of 63 at December 31, 2010, 82 at December 31, 2009 and 118 at December 31, 2008.

4 Total wireline broadband connections include DSL, U-verse High Speed Internet and satellite broadband.

5 Satellite service includes connections under our agency and resale agreements.

6 Includes consumer U-verse VoIP connections of 1,680 at December 31, 2010, 954 at December 31, 2009 and 224 at December 31, 2008.

7 Total switched access lines that are used solely by AT&T or our subsidiaries include 1,699 retail business and 95 wholesale lines at December 31, 2010, 1,750 retail business and 106 wholesale lines at December 31, 2009, and 1,879 retail business and 125 wholesale lines at December 31, 2008.

Dollars in millions except per share amounts

Advertising Solutions
Segment Results

Percent Change

2010 vs.

2009 vs.

2010

2009

2008

2009

2008

Total Segment Operating Revenues

\$ 3,935	\$ 4,724	\$ 5,416	(16.7)%	(12.8)%
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Segment operating expenses

Operations and support

2,583	2,743	2,900	(5.8)	(5.4)
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Depreciation and amortization

497	650	789	(23.5)	(17.6)
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Total Segment Operating Expenses

3,080	3,393	3,689	(9.2)	(8.0)
-------	-------	-------	--------	--------

Segment Income

\$ 855	\$ 1,331	\$ 1,727	(35.8)%	(22.9)%
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Operating Results

Our Advertising Solutions segment operating income margin was 21.7% in 2010, 28.2% in 2009 and 31.9% in 2008. The decrease in the segment operating income margin in both 2010 and 2009 was primarily the result of decreased operating revenues.

Operating revenues decreased \$789, or 16.7%, in 2010 and \$692, or 12.8%, in 2009. The decrease in 2010 was largely driven by continuing declines in print revenue of \$858, as customers reduced or eliminated print ad purchases due to the slow economy, partially offset by increased interactive revenue of \$77, as customers purchased more electronic advertising. The decrease in 2009 was primarily due to declines in print revenue of \$774 and lower sales agency revenues of \$34, partially offset by interactive advertising revenue growth of \$132. The current weak economy has reduced demand for advertising, and customers have continued to shift to Internet-based search services.

Operating expenses decreased \$313, or 9.2%, in 2010 and \$296, or 8.0%, in 2009. The 2010 decrease was largely driven by decreases in depreciation and amortization expense of \$136 resulting from use of an accelerated method of amortization for customer lists, employee-related costs of \$99, and bad debt expense of \$34. The 2009 decrease was due to decreased depreciation and amortization expenses of \$139, product-related costs of \$92, advertising costs of \$44 and professional contracted expenses of \$17.

Other
Segment Results

Percent Change

2010 vs.

2009 vs.

2010

2009

2008

2009

2008

Total Segment Operating Revenues

\$ 643	\$ 771	\$ 963	(16.6)%	(19.9)%
Total Segment Operating Expenses				
2,484	3,136	1,136	(20.8)	-
Segment Operating Loss				
(1,841)	(2,365)	(173)	22.2	-
Equity in Net Income of Affiliates				
742	708	794	4.8	(10.7)
Segment Income (Loss)				
\$ (1,099)	\$ (1,657)	\$ 621	33.7 %	-

The Other segment includes results from customer information services, our portion of the results from our international equity investments and all corporate and other operations. Also included in the Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated, including the interest cost and expected return on pension and other postretirement benefit plan assets.

Operating revenues decreased \$128, or 16.6%, in 2010 and \$192, or 19.9%, in 2009. The decrease in 2010 and 2009 is primarily due to reduced revenues from our operator services.

Operating expenses decreased \$652, or 20.8%, in 2010 and increased \$2,000 in 2009. The 2010 change was primarily due to lower interest costs on our pension and postretirement benefit obligation and a decrease in operator services operating expense. The increase in 2009 expense was primarily due to higher pension and postretirement benefit plan cost of approximately \$2,600 due to a lower-than-expected return on plan assets caused by investment losses in 2008, partially offset by workforce reductions in 2008.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Dollars in millions except per share amounts

Our Other segment also includes our equity investments in international companies, the income from which we report as equity in net income of affiliates. Our earnings from foreign affiliates are sensitive to exchange-rate changes in the value of the respective local currencies. Our equity in net income of affiliates by major investment is listed below:

2010

2009

2008

América Móvil

\$ 560 \$ 505 \$ 469

Telmex

150 133 252

Telmex Internacional¹

34 72 72

Other

(2) (2) 1

Other Segment Equity in

Net Income of Affiliates

\$ 742 \$ 708 \$ 794

1 Acquired by América Móvil in 2010.

Equity in net income of affiliates increased \$34 in 2010, primarily due to improved results at América Móvil. Equity in net income of affiliates decreased \$86 in 2009, primarily due to foreign currency translation losses at América Móvil, Telmex, and TI, partially offset by improved results at América Móvil. In June 2010, as part of a tender offer from América Móvil, we exchanged all our shares in TI for América Móvil L shares at the offered exchange rate of 0.373. The exchange was accounted for at fair value. In addition, we paid \$202 to purchase additional shares of América Móvil L stock to maintain our ownership percentage at a pretransaction level.

OPERATING ENVIRONMENT AND TRENDS OF THE BUSINESS

2011 Revenue Trends We expect our operating environment in 2011 to remain challenging as weak economic conditions continue and competition remains strong. Despite these challenges, we expect our operating revenues in 2011 to grow, reflecting continuing growth in our wireless data and IP-related wireline data services including U-verse and business services. We expect our primary driver of growth to be wireless, especially in sales of and increases in data usage on advanced handsets and emerging devices (such as tablets, eReaders and mobile navigation devices). We expect that all our major customer categories will continue to increase their use of Internet-based broadband/data services. We expect continuing declines in traditional access lines and in print directory advertising.

Where available, our U-verse services have proved effective in stemming access line losses, and we expect to continue to expand our U-verse service offerings in 2011.

2011 Expense Trends We will continue to focus sharply on cost-control measures, including areas such as simplifying product offerings. We will continue our ongoing initiatives to improve customer service and billing so we can realize our strategy of bundling services and providing a simple customer experience. We expect our 2011 operating income margin to improve, as our revenues improve. Expenses related to growth areas of our business, especially in the wireless, U-verse and strategic business services areas, will apply some pressure to our operating income margin. In addition, as we complete readying our Long-Term Evolution (LTE) technology for its intended use, we will no longer capitalize interest on this spectrum.

Market Conditions During 2010, the securities and fixed income markets and the banking system in general continued to stabilize, although bank lending and the housing industry remained weak. The ongoing weakness in the general economy has also affected our customer and supplier bases. We saw lower demand from our residential customers as well as our business customers at all organizational sizes. Some of our suppliers continue to experience increased financial and operating costs. These negative economic trends were offset by continued growth in our wireless data and IP-related services. While the economy appears to have stabilized, we do not expect a quick return to growth during 2011. Should the economy instead deteriorate further, we likely will experience further pressure on pricing and margins as we compete for both wireline and wireless customers who have less discretionary income. We also may experience difficulty purchasing equipment in a timely manner or maintaining and replacing warranted equipment from our suppliers.

Included on our consolidated balance sheets are assets held by benefit plans for the payment of future benefits. We are not required to make significant funding contributions to our pension plans in 2011. However, because our pension plans are subject to funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA), a continued weakness in the equity, fixed income and real asset markets could require us to make contributions to the pension plans in order to maintain minimum funding requirements as established by ERISA in future periods. Investment returns on these assets depend largely on trends in the U.S. securities markets and the U.S. economy. In addition, our policy of recognizing actuarial gains and losses related to our pension and other postretirement plans in the period in which they arise, subjects us to earnings volatility caused by changes in market conditions. Changes in our discount rate, which are tied to changes in the bond market and in the performance of equity markets, may have significant impacts on the fair value of pension and other postretirement plans at the end of 2011 (see "Significant Accounting Policies and Estimates").

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Dollars in millions except per share amounts

OPERATING ENVIRONMENT OVERVIEW

AT&T subsidiaries operating within the U.S. are subject to federal and state regulatory authorities. AT&T subsidiaries operating outside the U.S. are subject to the jurisdiction of national and supranational regulatory authorities in the markets where service is provided, and regulation is generally limited to operational licensing authority for the provision of services to enterprise customers.

In the Telecommunications Act of 1996 (Telecom Act), Congress established a national policy framework intended to bring the benefits of competition and investment in advanced telecommunications facilities and services to all Americans by opening all telecommunications markets to competition and reducing or eliminating regulatory burdens that harm consumer welfare. However, since the Telecom Act was passed, the Federal Communications Commission (FCC) and some state regulatory commissions have maintained certain regulatory requirements that were imposed decades ago on our traditional wireline subsidiaries when they operated as legal monopolies. Where appropriate, we are pursuing additional legislative and regulatory measures to reduce regulatory burdens that inhibit our ability to compete more effectively and offer services wanted and needed by our customers. With the advent of the Obama Administration, the composition of the FCC has changed, and the new Commission appears to be more open than the prior Commission to maintaining or expanding regulatory requirements on entities subject to its jurisdiction. In addition, Congress, the President and the FCC all have declared a national policy objective of ensuring that all Americans have access to broadband technologies and services. To that end, the FCC delivered a National Broadband Plan to Congress in 2010. The FCC has issued dozens of notices seeking comment on whether and how it should modify its rules and policies on a host of issues, which would affect all segments of the communications industry, to achieve universal access to broadband. These issues include rules and policies relating to universal service support, intercarrier compensation and regulation of special access services, as well as a variety of others that could have an impact on AT&T's operations and revenues. However, at this stage, it is too early to assess what, if any, impact such changes could have on us.

In addition, states representing a majority of our local service access lines have adopted legislation that enables new video entrants to acquire a single statewide or state-approved franchise (as opposed to the need to acquire hundreds or even thousands of municipal-approved franchises) to

offer competitive video services. We also are supporting efforts to update and improve regulatory treatment for retail services. Passage of legislation is uncertain and depends on many factors.

Our wireless operations operate in robust competitive markets but are likewise subject to substantial governmental regulation. Wireless communications providers must be licensed by the FCC to provide communications services at specified spectrum frequencies within specified geographic areas and must comply with the rules and policies governing the use of the spectrum as adopted by the FCC. The FCC has recognized the importance of providing carriers with access to adequate spectrum to permit continued wireless growth and has begun investigating how to develop policies to promote that goal. While wireless communications providers' prices and service offerings are generally not subject to state regulation, an increasing number of states are attempting to regulate or legislate various aspects of wireless services, such as in the area of consumer protection.

Expected Growth Areas

We expect our wireless services and data wireline products to remain the most significant portion of our business and have also discussed trends affecting the segments in which we report results for these products (see "Wireless Segment Results" and "Wireline Segment Results"). Over the next few years, we expect an increasing percentage of our growth to come from: (1) our wireless service and (2) data/broadband, through existing and new services. We expect that our previous acquisitions will enable us to strengthen the reach and sophistication of our network facilities, increase our large-business customer base and enhance the opportunity to market wireless services to that customer base. Whether, or the extent to which, growth in these areas will offset declines in other areas of our business is not known.

Wireless Wireless is our fastest-growing revenue stream and we expect to deliver continued revenue growth in the coming years. We believe that we are in a growth period of wireless data usage and that there are substantial opportunities available for next-generation converged services that combine wireless, broadband, voice and video.

We cover most major metropolitan areas of the U.S. with our Universal Mobile Telecommunications System/High-Speed Downlink Packet Access (HSPA) and HSPA+ network technology, with HSPA+ providing 4G speeds when combined with our upgraded backhaul. Our network provides superior

speeds for data and video services, as well as operating efficiencies using the same spectrum and infrastructure for voice and data on an IP-based platform. Our wireless network also relies on digital transmission technologies known as GSM, General Packet Radio Services and Enhanced Data Rates for GSM Evolution for data communications. As of December 31, 2010, we served 95.5 million customers. We have also begun transitioning our network to more advanced LTE technology. We continue to expand the number of locations, including airports and cafés, where customers can access broadband Internet connections using wireless fidelity (local radio frequency commonly referred to as Wi-Fi) wireless technology.

As the wireless industry continues to mature, we believe that future wireless growth will increasingly depend on our ability to offer innovative services that will encourage existing customers to upgrade their services, either by adding new types of services, such as data enhancements, or through increased use of existing services, such as through equipment upgrades. These innovative services should attract customers from other providers, as well as minimize customer churn. We intend to accomplish these goals by continuing to expand our network coverage, improve our network quality and offer a broad array of products and services, including free mobile-to-mobile calling among our wireless customers. Minimizing customer churn is critical to our ability to maximize revenue growth and to maintain and improve our operating margins.

U-verse Services We are continuing to expand our deployment of U-verse High Speed Internet and TV services. As of December 31, 2010, we have passed 27.3 million living units (constructed housing units as well as platted housing lots) and are marketing the services to 77% of those units. Our rate of expansion will be slowed if we cannot obtain all required local building permits in a timely fashion. We also continue to work with our vendors on improving, in a timely manner, the requisite hardware and software technology. Our deployment plans could be delayed if we do not receive required equipment and software on schedule.

We believe that our U-verse TV service is subject to federal oversight as a "video service" under the Federal Communications Act. However, some cable providers and municipalities have claimed that certain IP services should be treated as a traditional cable service and therefore subject to the applicable state and local cable regulation. Certain municipalities have delayed our request or have refused us permission to use our existing right-of-ways to deploy or activate our U-verse-related services and products, resulting in litigation. Pending negotiations and current or threatened litigation involving municipalities could delay our deployment plans in those areas. Petitions have been filed at the FCC alleging that the manner in which we provisions "public, educational and governmental" (PEG) programming over our U-verse TV service conflicts with federal law, and a lawsuit has been filed in a California state superior court raising similar allegations under California law. If courts having jurisdiction where we have significant deployments of our U-verse services were to decide that federal, state and/or local cable regulation were applicable to our U-verse services, or if the FCC,

state agencies or the courts were to rule that we must deliver PEG programming in a manner substantially different from the way we do today or in ways that are inconsistent with our current network architecture, it could have a material adverse effect on the cost, timing and extent of our deployment plans.

REGULATORY DEVELOPMENTS

Set forth below is a summary of the most significant developments in our regulatory environment during 2010. While these issues may apply only to certain subsidiaries, the words "we," "AT&T" and "our" are used to simplify the discussion. The following discussions are intended as a condensed summary of the issues rather than as a precise legal description of all of these specific issues.

International Regulation Our subsidiaries operating outside the U.S. are subject to the jurisdiction of regulatory authorities in the market where service is provided. Our licensing, compliance and advocacy initiatives in foreign countries primarily enable the provision of enterprise (i.e., large-business) services. AT&T is engaged in multiple efforts with foreign regulators to open markets to competition, reduce network costs and increase our scope of fully authorized network services and products.

Federal Regulation A summary of significant 2010 federal regulatory developments follows.

Net Neutrality On December 23, 2010, the FCC released an order adopting "net neutrality" rules. These rules apply to mass-market retail broadband Internet access services, such as DSL, cable modem service, mobile wireless broadband Internet access services and similar retail services that are offered by AT&T and our competitors. The rules do not apply to "enterprise" broadband Internet access services sold to large businesses, nor do they apply to other broadband IP-based services that do not offer connectivity to all end points on the Internet, such as Internet Protocol television services like AT&T's U-verse video service; VoIP; VPNs; smart utility meters, wireless medical monitoring devices and other similar devices. In addition, the FCC's rules do not prohibit broadband Internet access providers from adopting tiered or usage-sensitive pricing for their Internet access services.

Under the FCC's rules, broadband Internet access providers have the following duties: (i) transparency - all providers of broadband Internet access service (fixed and mobile) must disclose information in plain language about their commercial terms, performance characteristics, and network management; (ii) no blocking - providers of fixed broadband Internet access services may not block lawful content, applications, services or non-harmful devices, and providers of mobile broadband Internet access services may not block access to lawful Internet websites or lawful applications that compete with the provider's voice or video telephony services; and (iii) no unreasonable discrimination - providers of fixed broadband Internet access service may not unreasonably discriminate in the transmission of lawful Internet traffic over a consumer's wireline broadband Internet access services. Notwithstanding these duties, a broadband Internet access provider may engage in reasonable network management in order to address network congestion, prevent harm to the network or users, or take other reasonable steps to manage their network.

COMPETITION

Competition continues to increase for telecommunications and information services. Technological advances have expanded the types and uses of services and products available. In addition, lack of or a reduced level of regulation of comparable alternatives (e.g., cable, wireless and VoIP providers) has lowered costs for these alternative communications service providers. As a result, we face heightened competition as well as some new opportunities in significant portions of our business.

Wireless

We face substantial and increasing competition in all aspects of our wireless business. Under current FCC rules, six or more PCS licensees, two cellular licensees and one or more enhanced specialized mobile radio licensees may operate in each of our service areas, which results in the potential presence of multiple competitors. Our competitors are multiple national companies, such as Verizon Wireless, Sprint Nextel Corp., T-Mobile, Metro PCS and Cricket, and a larger number of regional providers of cellular, PCS and other wireless communications services. More than 95% of the U.S. population lives in areas with three mobile telephone operators, and more than half the population lives in areas with at least five competing carriers.

We may experience significant competition from companies that provide similar services using other communications technologies and services. While some of these technologies and services are now operational, others are being developed or may be developed. We compete for customers based principally on service offerings, call quality, coverage area, price and customer service.

Wireline

Our wireline subsidiaries expect continued competitive pressure in 2011 from multiple providers, including wireless, cable and other VoIP providers, interexchange carriers and resellers. In addition,

economic pressures are forcing customers to terminate their traditional local wireline service and substitute wireless and Internet-based services, intensifying a pre-existing trend toward wireless and Internet use. At this time, we are unable to quantify the effect of competition on the industry as a whole or financially on this segment. However, we expect both losses of revenue share in local service and gains resulting from business initiatives, especially in the area of bundling of products and services, including wireless and video, large-business data services and broadband. In most markets, we compete with large cable companies, such as Comcast Corporation, Cox Communications Inc. and Time Warner Cable Inc., for local, high-speed Internet and video services customers and other smaller telecommunications companies for both long-distance and local services customers.

Our wireline subsidiaries generally remain subject to regulation by state regulatory commissions for intrastate services and by the FCC for interstate services. In contrast, our competitors are often subject to less or no regulation in providing comparable voice and data services or the extent of regulation is in dispute. Under the Telecom Act, companies seeking to interconnect to our wireline subsidiaries' networks and exchange local calls enter into interconnection agreements with us. Any unresolved issues in negotiating those agreements are subject to arbitration before the appropriate state commission. These agreements (whether fully agreed-upon or arbitrated) are then subject to review and approval by the appropriate state commission.

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Our wireline subsidiaries (excluding rural carrier affiliates) operate under state-specific elective alternative forms of regulation for retail services (also referred to as "alternative regulation") that was either legislatively enacted or authorized by the appropriate state regulatory commission. Under alternative regulation, the state regulatory agency or the legislature may deregulate the competitive services; impose price caps for some services where the prices for these services are not tied to the cost of providing the services or to rate-of-return requirements; or adopt a regulatory framework that incorporates deregulation and price caps. Some states may impose minimum customer service standards with required payments if we fail to meet the standards.

We continue to lose access lines due to competitors (e.g., wireless, cable and VoIP providers) who can provide comparable services at lower prices because they are not subject to traditional telephone industry regulation (or the extent of regulation is in dispute), utilize different technologies, or promote

a different business model (such as advertising based) and consequently have lower cost structures. In response to these competitive pressures, for several years we have utilized a bundling strategy that rewards customers who consolidate their services (e.g., local and long-distance telephone, high-speed Internet, wireless and video) with us. We continue to focus on bundling wireline and wireless services, including combined packages of minutes and video service through our U-verse service and our relationships with satellite television providers. We will continue to develop innovative products that capitalize on our expanding fiber network.

Additionally, we provide local, domestic intrastate and interstate, international wholesale networking capacity, and switched services to other service providers, primarily large Internet Service Providers using the largest class of nationwide Internet networks (Internet backbone), wireless carriers, Competitive Local Exchange Carriers, regional phone ILECs, cable companies and systems integrators. These services are subject to additional competitive pressures from the development of new technologies and the increased availability of domestic and international transmission capacity. The introduction of new products and service offerings and increasing satellite, wireless, fiber-optic and cable transmission capacity for services similar to those provided by us continues to provide competitive pressures. We face a number of international competitors, including Orange Business Service, British Telecom, SingTel and Verizon Communications Inc., as well as competition from a number of large systems integrators, such as HP Enterprise Services.

Advertising Solutions

Our Advertising Solutions subsidiaries face competition from approximately 100 publishers of printed directories in their operating areas. Competition also exists from other advertising media, including newspapers, radio, television and direct-mail providers, as well as many forms of Internet-based and mobile advertising. Through our wholly-owned subsidiary, YELLOWPAGES.COM LLC, we compete with other providers of Internet-based advertising and local search.

ACCOUNTING POLICIES AND STANDARDS

Critical Accounting Policies and Estimates Because of the size of the financial statement line items they relate to, some of our accounting policies and estimates have a more significant impact on our financial statements than others. The following policies are presented in the order in which the topics appear in our consolidated statements of income.

Allowance for Doubtful Accounts We maintain an allowance for doubtful accounts for estimated losses that result from the failure of our customers to make required payments. When determining the allowance, we consider the probability of recoverability based on past experience, taking into account current collection trends as well as general economic factors, including bankruptcy rates. Credit risks are assessed based on historical write-offs, net of recoveries, and an analysis of the aged accounts

receivable balances with reserves generally increasing as the receivable ages. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as pending bankruptcy or catastrophes. The analysis of receivables is performed monthly, and the allowances for doubtful accounts are adjusted accordingly. A 10% change in the amounts estimated to be uncollectible would result in a change in the provision for uncollectible accounts of approximately \$100.

Pension and Other Postretirement Benefits In January 2011, we announced a change in our method of recognizing actuarial gains and losses for pension and other postretirement benefits for all benefit plans. Historically, we have recognized the actuarial gains and losses as a component of Stockholders' Equity on our consolidated balance sheets on an annual basis and have amortized them into our operating results over the average future service period of the active employees of these plans, to the extent such gains and losses were outside of a corridor. We have elected to immediately recognize actuarial gains and losses in our operating results, noting that it is generally preferable to accelerate the recognition of deferred gains and losses into income rather than to delay such recognition. This change will improve transparency in our operating results by more quickly recognizing the effects of economic and interest rate conditions on plan obligations, investments and assumptions. These gains and losses are generally only measured annually as of December 31 and accordingly will be recorded during the fourth quarter. Additionally, for purposes of calculating the expected return on plan assets, we will no longer use a permitted averaging technique for the market-related value of assets but instead will use actual fair value of plan assets. We have applied this change retrospectively, adjusting all prior periods. See Note 1 for a presentation of our operating results before and after the application of this accounting change.

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Our actuarial estimates of retiree benefit expense and the associated significant weighted-average assumptions are discussed in Note 11. Our assumed discount rate of 5.80% at December 31, 2010, reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve comprised of the rates of return on several hundred high-quality, fixed-income corporate bonds available at the measurement date and the related expected duration for the obligations. These bonds were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither convertible nor index linked. For the year

ended December 31, 2010, we decreased our discount rate by 0.70%, resulting in an increase in our pension plan benefit obligation of \$3,238 and an increase in our postretirement benefit obligation of \$2,817. For the year ended December 31, 2009, we decreased our discount rate by 0.50%, resulting in an increase in our pension plan benefit obligation of \$2,065 and an increase in our postretirement benefit obligation of \$1,847.

Our return on assets assumption was 8.5% for the year ended December 31, 2010. In 2010, we experienced actual returns on investments somewhat higher than expected; however, in 2011 we will be decreasing our expected return on assets to 8.25%, based on expectations on future market and the asset mix of the plans' investments. If all other factors were to remain unchanged, we expect that a 1.0% decrease in the actual long-term rate of return would cause 2011 combined pension and postretirement cost to increase \$575.

Note 11 also discusses the effects of certain changes in assumptions related to medical trend rates on retiree healthcare costs. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated postretirement benefit obligation and postretirement benefit cost would be affected in future years.

Depreciation Our depreciation of assets, including use of composite group depreciation and estimates of useful lives, is described in Notes 1 and 5. We assign useful lives based on periodic studies of actual asset lives. Changes in those lives with significant impact on the financial statements must be disclosed, but no such changes have occurred in the three years ended December 31, 2010. However, if all other factors were to remain unchanged, we expect that a one-year increase in the useful lives of the largest categories of our plant in service (which accounts for more than 75% of our total plant in service) would result in a decrease of approximately \$2,275 in our 2011 depreciation expense and that a one-year decrease would result in an increase of approximately \$3,341 in our 2011 depreciation expense.

Asset Valuations and Impairments We account for acquisitions completed after 2008 using the acquisition method. We allocate the purchase price to the assets acquired and liabilities assumed based on their estimated fair values. The estimated fair values of intangible assets acquired are based on the expected discounted cash flows of the identified customer relationships, patents, trade names and FCC licenses. In determining the future cash flows, we consider demand, competition and other economic factors.

Customer relationships, which are finite-lived intangible assets, are primarily amortized using the sum-of-the-months-digits method of amortization over the period in which those relationships are expected to contribute to our future cash flows. The sum-of-the-months-digits method is a process of allocation, and reflects our belief that we expect greater revenue generation from these customer

relationships during the earlier years of their lives. Alternatively, we could have chosen to amortize customer relationships using the straight-line method, which would allocate the cost equally over the amortization period. Amortization of other intangibles, including patents and certain trade names, is determined using the straight-line method of amortization over the expected remaining useful lives.

Goodwill and wireless FCC licenses are not amortized but tested annually for impairment. We conduct our impairment tests as of October 1. We test goodwill on a reporting unit basis, and our reporting units coincide with our segments, except for certain operations in our Other segment. The goodwill impairment test is a two-step process. The first step involves determining the fair value of the reporting unit and comparing that measurement to the book value. If the fair value exceeds the book value, then no further testing is required. If the fair value is less than the book value (i.e., an impairment exists), then we perform a second step.

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In the second step, we determine the fair values of all of the assets and liabilities of the reporting unit, including those that may not be currently recorded. The difference between the sum of all of those fair values and the overall reporting unit's fair value is a new implied goodwill amount, which we compare to the recorded goodwill. If implied goodwill is less than the recorded goodwill, then we record an impairment of the recorded goodwill. The amount of this impairment may be more or less than the difference between the overall fair value and book value of the reporting unit. It may even be zero if the fair values of other assets are less than their book values. Goodwill is the only asset that may be impaired when performing the goodwill impairment test.

As shown in Note 6, more than 99% of our goodwill resides in the Wireless, Wireline, and Advertising Solutions segments. For each of those segments, we assess their fair value using a market multiple approach and a discounted cash flow approach. Our primary valuation technique is to determine enterprise value as a multiple of a company's Operating Income Before Depreciation and Amortization (OIBDA). We determined the multiples of the publicly traded companies whose services are comparable to those offered by the segment and then calculate a weighted average of those multiples. Using those weighted averages, we then calculated fair values for each of those segments. We also perform a discounted cash flow analysis as a secondary test of fair value to corroborate our primary market multiple test. The calculated fair value exceeded book value in all circumstances and no additional testing was necessary. In the event of a 10% drop in the fair values of the reporting

units, the fair values would have still exceeded the book values of the reporting units and additional testing would still have not been necessary.

Wireless FCC licenses are tested for impairment on an aggregate basis, consistent with the management of the business on a national scope. As in prior years, we performed our test of the fair values of FCC licenses using a discounted cash flow model (the Greenfield Approach). The Greenfield Approach assumes a company initially owns only the wireless FCC licenses, and then makes investments required to build an operation comparable to the one that currently utilizes the licenses. We utilized a 17-year discrete period to isolate cash flows attributable to the licenses, including modeling the hypothetical build-out. The projected cash flows are based on certain financial factors, including revenue growth rates, OIBDA margins, and churn rates. We expect wireless revenue growth to trend down from our 2010 growth rate of 9.3% to a long-term growth rate that reflects expected long-term inflation trends. We expect our churn rates to continue to decline from 1.31% in 2010, in line with expected trends in the industry but at a rate comparable with industry-leading churn. OIBDA margins should continue to trend above 40.0%.

This model then incorporates cash flow assumptions regarding investment in the network, development of distribution channels and the subscriber base, and other inputs for making the business operational. We based the assumptions, which underlie the development of the network, subscriber base and other critical inputs of the discounted cash flow model on a combination of average marketplace participant data and our historical results, trends and business plans. We also used operating metrics such as capital investment per subscriber, acquisition costs per subscriber, minutes of use per subscriber, etc., to develop the projected cash flows. Since we included the cash flows associated with these other inputs in the annual cash flow projections, the present value of the unlevered free cash flows of the segment, after investment in the network, subscribers, etc., is attributable to the wireless FCC licenses. The terminal value of the segment, which incorporates an assumed sustainable growth rate, is also discounted and is likewise attributed to the licenses. We used a discount rate of 9.0%, based on the optimal long-term capital structure of a market participant and its associated cost of debt and equity, to calculate the present value of the projected cash flows. This discount rate is also consistent with rates we use to calculate the present value of the projected cash flows of licenses acquired from third parties.

If either the projected rate of long-term growth of cash flows or revenues declined by 1%, or if the discount rate increased by 1%, the fair values of the wireless FCC licenses, while less than currently projected, would still be higher than the book value of the licenses. The fair value of the licenses exceeded the book value by more than 25%.

We review customer relationships and other long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the

asset or asset group. To determine that the asset is recoverable, we verify that the expected undiscounted future cash flows directly related to that asset exceed its book value.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
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We evaluate our investments to determine whether market declines are temporary and accordingly reflected in accumulated other comprehensive income, or other-than-temporary and recorded as an expense in other income (expense) in the consolidated income statements. This evaluation is based on the length of time and the severity of decline in the investment's value. In 2010, we identified an other-than-temporary decline in the value of one of our equity method investments and various cost investments. At the end of the first quarter of 2009 and at the end of 2008, we concluded the severity of decline had led to an other-than-temporary decline in the value of assets contained in an independently managed trust for certain BellSouth employee benefits.

Income Taxes Our estimates of income taxes and the significant items giving rise to the deferred assets and liabilities are shown in Note 10 and reflect our assessment of actual future taxes to be paid on items reflected in the financial statements, giving consideration to both timing and probability of these estimates. Actual income taxes could vary from these estimates due to future changes in income tax law or the final review of our tax returns by federal, state or foreign tax authorities.

We use our judgment to determine whether it is more likely than not that we will sustain positions that we have taken on tax returns and, if so, the amount of benefit to initially recognize within our financial statements. We regularly review our uncertain tax positions and adjust our unrecognized tax benefits (UTBs) in light of changes in facts and circumstances, such as changes in tax law, interactions with taxing authorities and developments in case law. These adjustments to our UBTs may affect our income tax expense. Settlement of uncertain tax positions may require use of our cash.

New Accounting Standards

Revenue Arrangements with Multiple Deliverables In October 2009, the Financial Accounting Standards Board (FASB) issued "Multiple-Deliverable Revenue Arrangements" (ASU 2009-13), which addresses how revenues should be allocated among all products and services included in our bundled sales arrangements. It establishes a selling price hierarchy for determining the selling price of each product or service, with vendor-specific objective evidence at the highest level, third-party

evidence at the intermediate level, and a best estimate at the lowest level. It eliminates the residual method as an acceptable allocation method, and requires the use of the relative selling price method as the basis for allocation. It also significantly expands the disclosure requirements for such arrangements, including, potentially, certain qualitative disclosures. We adopted ASU 2009-13 for sales entered into or materially modified in the year beginning January 1, 2011. ASU 2009-13 had no material effect on our financial statements or existing revenue recognition policies.

See Note 1 for a discussion of other recently issued or adopted accounting standards.

OTHER BUSINESS MATTERS

Retiree Phone Concession Litigation In May 2005, we were served with a purported class action in U.S. District Court, Western District of Texas (*Stoffels v. SBC Communications Inc.*), in which the plaintiffs, who are retirees of Pacific Bell Telephone Company, Southwestern Bell and Ameritech, contend that the cash reimbursement formerly paid to retirees living outside their company's local service area, for telephone service they purchased from another provider, is a "defined benefit plan" within the meaning of ERISA. In October 2006, the Court certified two classes. The issue of whether the concession is an ERISA pension plan was tried before the judge in November 2007. In May 2008, the court ruled that the concession was an ERISA pension plan. We asked the court to certify this ruling for interlocutory appeal, and in August 2008, the court denied our request. In May 2009, we filed a motion for reconsideration with the trial court. That motion was granted on January 14, 2011, and a final judgment has been entered in our favor. Plaintiffs have appealed the judgment to the Fifth Circuit Court of Appeals. We believe that an adverse outcome having a material effect on our financial statements in this case is unlikely, but we will continue to evaluate the potential impact of this suit on our financial results as it progresses.

NSA Litigation Twenty-four lawsuits were filed alleging that we and other telecommunications carriers unlawfully provided assistance to the National Security Agency in connection with intelligence activities that were initiated following the events of September 11, 2001. In the first filed case, *Hepting et al v. AT&T Corp., AT&T Inc. and Does 1-20*, a purported class action filed in U.S. District Court in the Northern District of California, plaintiffs alleged that the defendants disclosed and are currently disclosing to the U.S. Government content and call records concerning communications to which Plaintiffs were a party. Plaintiffs sought damages, a declaratory judgment and injunctive relief for violations of the First and Fourth Amendments to the United States Constitution, the Foreign Intelligence Surveillance Act (FISA), the Electronic Communications Privacy Act and other federal and California statutes. We filed a motion to dismiss the complaint. The United States asserted the "state secrets privilege" and related statutory privileges and also filed a motion asking the court to dismiss the complaint. The Court denied the motions, and we and the United States appealed. In August 2008, the U.S. Court of Appeals for the Ninth Circuit remanded the case to the district court

without deciding the issue in light of the passage of the FISA Amendments Act, a provision of which addresses the allegations in these pending lawsuits (immunity provision). The immunity provision requires the pending lawsuits to be dismissed if the Attorney General certifies to the court either that the alleged assistance was undertaken by court order, certification, directive or written request or that the telecom entity did not provide the alleged assistance. In September 2008, the Attorney General filed his certification and asked the district court to dismiss all of the lawsuits pending against the AT&T Inc. telecommunications companies. The court granted the Government's motion to dismiss and entered final judgments in July 2009. In addition, a lawsuit seeking to enjoin the immunity provision's application on grounds that it is unconstitutional was filed. In March 2009, we and the Government filed motions to dismiss this lawsuit. The court granted the motion to dismiss and entered final judgment in July 2009. All cases brought against the AT&T entities have been dismissed. In August 2009, plaintiffs in all cases filed an appeal with the Ninth Circuit Court of Appeals, and this appeal remains pending. Management believes this appeal is without merit and intends to continue to defend these matters vigorously.

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Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
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Universal Service Fees Litigation In October 2010, our wireless subsidiary was served with a purported class action in Circuit Court, Cole County, Missouri (MBA Surety Agency, Inc. v. AT&T Mobility, LLC), in which the plaintiffs contend that we violated the FCC's rules by collecting universal service fees on certain services not subject to such fees, including Internet access service provided over wireless handsets commonly called "smartphones" and wireless data cards, as well as collecting certain other state and local fees. Plaintiffs define the class as all persons who from April 1, 2003, until the present had a contractual relationship with us for Internet access through a smartphone or a wireless data card. Plaintiffs seek an unspecified amount of damages as well as injunctive relief. We believe that an adverse outcome having a material effect on our financial statements in this case is unlikely.

National Healthcare Law In 2010, we paid \$5,312 for a variety of health and welfare benefits provided to certain active and retired employees and their dependents under various plans. Of those benefits, \$4,463 related to medical and prescription drug benefits. In March 2010, the President signed into law the comprehensive healthcare reform legislation. The legislation changed the tax treatment of the Medicare Part D subsidy, provided Medicare payment reforms, and enacted an

excise tax on ?Cadillac? plans as well as mandates for providing coverage and other requirements for delivery of health care to employees and retirees. We recorded a non-cash charge of \$995 in the first quarter of 2010 to reflect the impact of this change. In 2011, we received a reimbursement of \$92 relating to coverage provided to our early retirees as provided by the new legislation. We continue to evaluate the effects of the new law and its related regulations on the level of healthcare benefits we currently provide to active employees and retirees.

Wireless Transactions In June 2010, we acquired certain wireless properties, including FCC licenses and network assets from Verizon Wireless for \$2,376 in cash and increased goodwill by \$937. The assets primarily represented former Alltel Wireless assets and served approximately 1.6 million subscribers in 79 service areas across 18 states. Since the properties we acquired use a different network technology than our GSM technology, we expect to incur additional costs to convert that network and subscriber handsets to our GSM technology.

As a condition of our acquisition of Centennial, in August 2010, we sold eight service areas in Louisiana and Mississippi for \$273.

In December 2010, we agreed to purchase spectrum licenses in the Lower 700 MHz frequency band from Qualcomm Incorporated (Qualcomm) for approximately \$1,925 in cash. The spectrum covers more than 300 million people total nationwide, including 12 MHz of Lower 700 MHz D and E block spectrum covering more than 70 million people in five of the top 15 metropolitan areas and 6 MHz of Lower 700 MHz D block spectrum covering more than 230 million people across the rest of the U.S. We plan to deploy this spectrum as supplemental downlink capacity, using carrier aggregation technology once compatible handsets and network equipment are developed. The transaction is subject to regulatory approvals and other customary closing conditions. In February 2011, the waiting period under the Hart-Scott-Rodino Act expired without the Department of Justice requesting additional information. AT&T and Qualcomm anticipate closing the purchase in the second half of 2011.

Labor Contracts In February 2010, the Company and the Communications Workers of America (CWA) announced a tentative agreement covering approximately 30,000 core wireline employees in the nine-state former BellSouth region, subject to ratification by those covered employees. This agreement was ratified in March 2010. In September, approximately 4,000 core wireline employees in the Company?s east region also ratified a tentative agreement previously announced by the Company and the CWA. All core wireline employees are now covered by agreements reached since prior labor agreements expired during 2009.

Environmental We are subject from time to time to judicial and administrative proceedings brought by various governmental authorities under federal, state or local environmental laws. Although we are

required to reference in our Forms 10-Q and 10-K any of these proceedings that could result in monetary sanctions (exclusive of interest and costs) of one hundred thousand dollars or more, we do not believe that any of them currently pending will have a material adverse effect on our results of operations.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
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LIQUIDITY AND CAPITAL RESOURCES

We had \$1,437 in cash and cash equivalents available at December 31, 2010. Cash and cash equivalents included cash of \$332 and money market funds and other cash equivalents of \$1,105. Cash and cash equivalents decreased \$2,304 since December 31, 2009. During 2010, cash inflows were primarily provided by cash receipts from operations, the issuance of debt and the disposition of non-strategic assets. These inflows were more than offset by cash used to meet the needs of the business including, but not limited to, payment of operating expenses, funding capital expenditures, dividends to stockholders, repayment of debt, payment of interest on debt, and acquisitions. We discuss many of these factors in detail below.

Cash Provided by or Used in Operating Activities

During 2010, cash provided by operating activities was \$34,993 compared to \$34,405 in 2009. Our higher operating cash flow reflects decreased tax payments of \$933. During 2010, our payments for current income taxes were lower than 2009 due to lower audit-related payments net of refunds. The timing of cash payments for income taxes is governed by the IRS and other taxing authorities and differs from the timing of recording tax expense.

In September 2010, we reached a settlement with the IRS on the calculation of the tax basis of certain assets relating to a restructuring of our wireless operations. The allowed amortization deductions on these settlement-related assets are expected to cover a 15-year period, which began in 2008. As a result of this settlement, we paid \$300 to the IRS during the fourth quarter of 2010, representing the tax effect of disallowed deductions taken on our federal income tax returns in 2008 and 2009. We also decreased our net tax liabilities approximately \$8,300 and expect to recognize the cash flow impacts of the settlement over a 15-year period, which began in 2008. The effect of the change to our net tax liabilities was recognized through our income statement in the third quarter of

2010 as a reduction in income tax expense.

During 2009, cash provided by operating activities was \$34,405 compared to \$33,610 in 2008. Our higher operating cash flow reflected decreased tax payments of \$836, partially offset by increased interest payments of \$157. During 2009, our payments for income taxes were lower than 2008 due primarily to changes in law impacting the timing of payments, partially offset by an increase in audit-related payments net of refunds.

Cash Used in or Provided by Investing Activities

During 2010, cash used in investing activities consisted of:

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\$19,530 in capital expenditures, excluding interest during construction.

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\$772 in interest during construction.

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\$2,376, net of cash acquired, related to the acquisition of various assets from Verizon.

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\$265 related to wireless spectrum and licenses acquired.

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\$265 related to other acquisitions.

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\$100 from the purchase of securities, net of investments.

During 2010, cash provided by investing activities consisted of:

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\$1,830 from dispositions of non-strategic assets.

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\$29 related to other activities.

Our capital expenditures are primarily for our wireless and wireline subsidiaries' networks, our U-verse services, and support systems for our communications services. Total capital spending in 2010

was \$19,530, which was a \$2,976 increase from 2009. Capital spending in our Wireless segment, excluding interest during construction, represented 43% of our total spending and increased over 50% from 2009. Wireless expenditures were used for network capacity expansion, integration and upgrades to our HSPA network and the initial deployment of LTE (4G) equipment for trials. Capital expenditures in our Wireline segment, which represented 56% of our capital expenditures excluding interest during construction, decreased 1% for 2010, reflecting decreased spending on U-verse services, less spending on wireline voice services, and lower DSL and High Capacity volumes. The Other segment capital expenditures were less than 1% of total capital expenditures for 2010. We expect to fund any Advertising Solutions segment capital expenditures using cash from operations. We expect total 2011 capital investment to be in the low- to mid-\$19,000 range. We anticipate using approximately \$1,925 of cash in 2011 to purchase wireless spectrum from Qualcomm.

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Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
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Cash Used in or Provided by Financing Activities

We paid dividends of \$9,916 in 2010, \$9,670 in 2009, and \$9,507 in 2008, reflecting dividend rate increases. In December 2010, our Board of Directors approved a 2.4% increase in the quarterly dividend from \$0.42 to \$0.43 per share. This follows a 2.4% dividend increase approved by AT&T's Board in December 2009. Dividends declared by our Board of Directors totaled \$1.69 per share in 2010, \$1.65 per share in 2009 and \$1.61 per share in 2008. Our dividend policy considers both the expectations and requirements of stockholders, internal requirements of AT&T and long-term growth opportunities. It is our intent to provide the financial flexibility to allow our Board of Directors to consider dividend growth and to recommend an increase in dividends to be paid in future periods. All dividends remain subject to approval by our Board of Directors.

During 2010, we received net proceeds of \$2,235 from the issuance of \$2,250 of 2.50% global notes due in 2015. Debt proceeds were used for general corporate purposes. We also received proceeds of \$1,620 from the net issuance of commercial paper and other short-term bank borrowings.

During 2010, debt repayments totaled \$9,294 and consisted of:

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\$5,668 in repayments of long-term debt with a weighted-average interest rate of 2.86%.

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\$3,000 in the early redemption of the New Cingular Wireless Services, Inc. 7.875% notes originally due on March 1, 2011.

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\$594 related to the private exchange we completed on September 2, 2010, whereby holders exchanged \$1,362 of New Cingular Wireless Services, Inc. 8.75% senior notes due 2031 and \$1,537 of AT&T Corp. (ATTC) 8.00% senior notes due 2031 for \$3,500 of new 5.35% AT&T Inc. global notes due 2040 plus a cash payment.

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\$32 in repayments of capitalized leases.

At December 31, 2010, we had \$7,196 of debt maturing within one year, which included \$5,544 of long-term debt maturities, \$1,625 of commercial paper and \$27 of other borrowings. Debt maturing within one year includes \$1,000 of annual put reset securities issued by BellSouth that may be put each April until maturity in 2021.

During 2010, the following other financing activities occurred:

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We paid out \$278 related to derivative collateral; \$197 was our returning collateral to counterparties, which were funds they had posted to us in 2009 (see Note 9).

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We paid \$266 to minority interest holders.

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We received proceeds of \$50 from the issuance of treasury shares related to the settlement of share-based awards.

In December 2010, our Board of Directors approved a program to repurchase up to 300 million shares (approximately 5%) of our common stock; the program does not have an expiration date.

We plan to fund our 2011 financing activities through a combination of cash from operations and debt issuances. The timing and mix of debt issuance will be guided by credit market conditions and interest rate trends. The emphasis of our financing activities will be the payment of dividends, subject to approval by our Board of Directors, the repayment of debt, and potential share repurchases.

Credit Facilities In December 2010, we replaced our five-year, \$9,465 revolving credit facility with two new revolving credit facilities with a syndicate of banks ? a four-year, \$5,000 agreement and a \$3,000, 364-day agreement. In the event advances are made under either agreement, those advances would be used for general corporate purposes, which could include repayment of maturing commercial paper. Advances are not conditioned on the absence of a material adverse change. All advances must be repaid no later than the date on which lenders are no longer obligated to make any advances under each agreement. Under each agreement, we can terminate, in whole or in part, amounts committed by the lenders in excess of any outstanding advances; however, we cannot reinstate any such terminated commitments. At December 31, 2010, we had no advances outstanding under either agreement and were in compliance with all covenants under each agreement.

The Four-Year Agreement

We can request the lenders to further increase their commitments (i.e., raise the available credit) up to an additional \$2,000 provided no event of default has occurred. The obligations of the lenders to provide advances will terminate on December 20, 2014, unless prior to that date either: (i) we reduce to \$0 the commitments of the lenders, or (ii) certain events of default occur. We and lenders representing more than 50% of the facility amount may agree to extend their commitments for an additional one year beyond the December 20, 2014, termination date (with a potential one-year further renewal), under certain circumstances.

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Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Dollars in millions except per share amounts

Advances would bear interest, at our option, either:

.

at an annual rate equal to (1) the highest of (a) the base (or prime) rate of a designated bank, (b) 0.50% per annum above the Federal funds rate, and (c) the British Bankers Association Interest Settlement Rate applicable to Dollars for a period of one month plus 1.00%, plus (2) a rate based on AT&T's credit default swap mid-rate spread and subject to a floor or cap as set forth in the Agreement (Applicable Margin) minus 1.00% provided such total exceeds zero; or

.

at a rate equal to: (i) the London InterBank Offered Rate (LIBOR) (adjusted upwards to reflect any bank reserve costs) for a period of one, two, three or six months, as applicable, plus (ii) the Applicable Margin.

If we pledge assets or otherwise have liens on our properties, then advances will be ratably secured, subject to specified exceptions. We also must maintain a debt-to-EBITDA (earnings before interest, income taxes, depreciation and amortization, and other modifications described in the agreement) ratio of not more than three-to-one, as of the last day of each fiscal quarter, for the four quarters then ended.

Defaults under the agreement, which would permit the lenders to accelerate required repayment and which would increase the Applicable Margin by 2.00% per annum, include:

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We fail to pay principal or interest, or other amounts under the agreement beyond any grace period,

.

We fail to pay when due other debt of \$400 or more that results in acceleration of that debt (commonly referred to as "cross-acceleration") or a creditor commences enforcement proceedings within a specified period after a money judgment of \$400 or more has become final,

.

A person acquires beneficial ownership of more than 50% of AT&T common shares or more than a majority of AT&T's directors changes in any 24-month period other than as elected by the remaining directors (commonly referred to as a "change in control"),

.

Material breaches of representations or warranties in the agreement,

.

We fail to comply with the negative pledge or debt-to-EBITDA ratio covenants described above,

.

We fail to comply with other covenants under the Agreement for a specified period after notice,

.

We fail to make certain minimum funding payments under ERISA, and

.

Our bankruptcy or insolvency.

364-day Agreement

The obligations of the lenders to provide advances will terminate on December 19, 2011, unless prior to that date either: (i) we reduce to \$0 the commitments of the lenders, or (ii) certain events of default occur. We and lenders representing more than 50% of the facility amount may agree to extend their commitments for an additional 364-day period beyond the December 19, 2011 termination date, under certain circumstances. We also can convert all or part of outstanding advances under the 364-day Agreement into term loan(s) maturing no later than the first anniversary of the termination date, under certain circumstances.

Advances would bear interest, at our option, either:

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at a variable annual rate equal to (1) the highest of (a) the base (or prime) rate of a designated bank, (b) 0.50% per annum above the Federal funds rate, and (c) the British Bankers Association Interest Settlement Rate applicable to Dollars for a period of one month plus 1.00%, plus (2) a rate based on AT&T's credit default swap mid-rate spread and subject to a floor or cap as set forth in such Agreement (Applicable Margin) minus 1.00% provided such total exceeds zero; or

.

at a rate equal to: (i) LIBOR (adjusted upwards to reflect any bank reserve costs) for a period of one, two, three or six months, as applicable, plus (ii) the Applicable Margin.

The 364-day Agreement contains a negative pledge covenant that is identical to the negative pledge described above. In the event we elect to convert any outstanding advances to term loan(s), the debt-to-EBITDA financial ratio covenant described above also would apply while such term loan(s) were outstanding. The events of default described above also apply to the 364-day Agreement.

Other

Our total capital consists of debt (long-term debt and debt maturing within one year) and stockholders' equity. Our capital structure does not include debt issued by our international equity investees. Our debt ratio was 37.1%, 41.4% and 43.8% at December 31, 2010, 2009 and 2008. The debt ratio is affected by the same factors that affect total capital. Total capital increased \$4,046 in 2010 compared to an increase of \$2,716 in 2009. The 2010 total capital increase was primarily due to a \$9,848 increase in retained earnings, partially offset by a \$5,914 decrease in debt, both factors which lowered the debt ratio in 2010.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

Current accounting standards require us to disclose our material obligations and commitments to making future payments under contracts, such as debt and lease agreements, and under contingent commitments, such as debt guarantees. We occasionally enter into third-party debt guarantees, but they are not, nor are they reasonably likely to become, material. We disclose our contractual long-term debt repayment obligations in Note 8 and our operating lease payments in Note 5. Our contractual obligations do not include expected pension and postretirement payments as we maintain pension funds and Voluntary Employee Beneficiary Association trusts to fully or partially fund these benefits (see Note 11). In the ordinary course of business, we routinely enter into commercial commitments for various aspects of our operations, such as plant additions and office supplies. However, we do not believe that the commitments will have a material effect on our financial condition, results of operations or cash flows.

Our contractual obligations as of December 31, 2010 are in the following table. The purchase obligations that follow are those for which we have guaranteed funds and will be funded with cash provided by operations or through incremental borrowings. The minimum commitment for certain obligations is based on termination penalties that could be paid to exit the contract. Since termination penalties would not be paid every year, such penalties are excluded from the table. Other long-term liabilities were included in the table based on the year of required payment or an estimate of the year of payment. Such estimate of payment is based on a review of past trends for these items, as well as a forecast of future activities. Certain items were excluded from the following table, as the year of payment is unknown and could not be reliably estimated since past trends were not deemed to be an indicator of future payment.

Substantially all of our purchase obligations are in our Wireline and Wireless segments. The table does not include the fair value of our interest rate swaps. Our capital lease obligations and bank borrowings have been excluded from the table due to the immaterial amounts of such obligations at December 31, 2010. Many of our other noncurrent liabilities have been excluded from the following table due to the uncertainty of the timing of payments, combined with the absence of historical trending to be used as a predictor of such payments. Additionally, certain other long-term liabilities have been excluded since settlement of such liabilities will not require the use of cash. However, we have included in the following table obligations that primarily relate to benefit funding and severance

due to the certainty of the timing of these future payments. Our other long-term liabilities are: deferred income taxes (see Note 10) of \$22,361; postemployment benefit obligations of \$28,803; and other noncurrent liabilities of \$12,743, which included deferred lease revenue from our agreement with American Tower Corp. of \$480 (see Note 5).

Payments Due By Period
Contractual Obligations

Total

Less than 1 Year

1 - 3 Years

3 - 5 Years

More than 5 Years

Long-term debt obligations¹

\$ 64,156	\$ 5,535	\$ 11,277	\$ 9,302	\$ 38,042
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Interest payments on long-term debt

62,693	3,781	6,542	5,476	46,894
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Operating lease obligations

24,804	2,590	4,711	4,156	13,347
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Unrecognized tax benefits²

3,141	-	-	-	3,141
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Purchase obligations³

10,603	3,158	4,904	1,934	607
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Total Contractual Obligations

\$ 165,397	\$ 15,064	\$ 27,434	\$ 20,868	\$ 102,031
------------	-----------	-----------	-----------	------------

1

Represents principal or payoff amounts of notes and debentures at maturity or, for putable debt, the next put opportunity.

2

The noncurrent portion of the unrecognized tax benefits is included in the "More than 5 Years" column, as we cannot reasonably estimate the timing or amounts of additional cash payments, if any, at this time. See Note 10 for additional information.

We calculated the minimum obligation for certain agreements to purchase goods or services based on termination fees that can be paid to exit the contract. If we elect to exit these contracts, termination fees for all such contracts in the year of termination could be approximately \$863 in 2011, \$668 in the aggregate for 2012 and 2013, \$38 in the aggregate for 2014 and 2015, and \$5 in the aggregate, thereafter. Certain termination fees are excluded from the above table, as the fees would not be paid every year and the timing of such payments, if any, is uncertain.

MARKET RISK

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. These risks, along with other business risks, impact our cost of capital. It is our policy to manage our debt structure and foreign exchange exposure in order to manage capital costs, control financial risks and maintain financial flexibility over the long term. In managing market risks, we employ derivatives according to documented policies and procedures, including interest rate swaps, interest rate locks, foreign currency exchange contracts and combined interest rate foreign currency contracts (cross-currency swaps). We do not use derivatives for trading or speculative purposes. We do not foresee significant changes in the strategies we use to manage market risk in the near future.

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Interest Rate Risk

The majority of our financial instruments are medium- and long-term fixed-rate notes and debentures. Changes in interest rates can lead to significant fluctuations in the fair value of these instruments. The principal amounts by expected maturity, average interest rate and fair value of our liabilities that are exposed to interest rate risk are described in Notes 8 and 9. In managing interest expense, we control our mix of fixed and floating rate debt, principally through the use of interest rate swaps. We have established interest rate risk limits that we closely monitor by measuring interest rate sensitivities in our debt and interest rate derivatives portfolios.

All our foreign-denominated debt has been swapped from fixed-rate foreign currencies to fixed-rate

U.S. dollars at issuance through cross-currency swaps, removing interest rate risk and foreign currency exchange risk associated with the underlying interest and principal payments. Likewise, periodically we enter into interest rate locks to partially hedge the risk of increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We expect gains or losses in our cross-currency swaps and interest rate locks to offset the losses and gains in the financial instruments they hedge.

Following are our interest rate derivatives subject to material interest rate risk as of December 31, 2010. The interest rates illustrated below refer to the average rates we expect to pay based on current and implied forward rates and the average rates we expect to receive based on derivative contracts. The notional amount is the principal amount of the debt subject to the interest rate swap contracts. The fair value asset (liability) represents the amount we would receive (pay) if we had exited the contracts as of December 31, 2010.

Maturity

Fair

Value

2011

2012

2013

2014

2015

Thereafter

Total

12/31/10

Interest Rate Derivatives

Interest Rate Swaps:

Receive Fixed/Pay Variable

Notional Amount Maturing

\$ 3,000	\$ 3,050	\$ 3,000	\$ 1,000	-	\$ 1,000	\$ 11,050	\$ 537
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Weighted-Average Variable Rate Payable¹

2.8 %	3.4 %	5.0 %	4.8 %	5.4 %	5.9 %
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Weighted-Average Fixed

Rate Receivable

5.7 %	5.5 %	5.7 %	5.6 %	5.6 %	5.6 %
-------	-------	-------	-------	-------	-------

1

Interest payable based on current and implied forward rates for One, Three or Six Month LIBOR plus a spread ranging between approximately 36 and 576 basis points.

Foreign Exchange Risk

We are exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. We do not hedge foreign currency translation risk in the net assets and income we report from these sources. However, we do hedge a large portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions and cash flow streams, such as those related to issuing foreign-denominated debt, receiving dividends from foreign investments, and other receipts and disbursements.

Through cross-currency swaps, all our foreign-denominated debt has been swapped from fixed-rate foreign currencies to fixed-rate U.S. dollars at issuance, removing interest rate risk and foreign currency exchange risk associated with the underlying interest and principal payments. We expect gains or losses in our cross-currency swaps to offset the losses and gains in the financial instruments they hedge.

In anticipation of other foreign currency-denominated transactions, we often enter into foreign exchange forward contracts to provide currency at a fixed rate. Our policy is to measure the risk of adverse currency fluctuations by calculating the potential dollar losses resulting from changes in exchange rates that have a reasonable probability of occurring. We cover the exposure that results from changes that exceed acceptable amounts.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Dollars in millions except per share amounts

For the purpose of assessing specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments and results of operations. To perform the sensitivity analysis, we assess the risk of loss in fair values from the effect of a hypothetical 10% depreciation of the U.S. dollar against foreign currencies from the prevailing foreign currency exchange rates, assuming no change in interest rates. For foreign exchange forward contracts outstanding at December 31, 2010, the change in fair value was immaterial. Furthermore, because our foreign exchange contracts are entered into for hedging purposes, we believe that these losses would be largely offset by gains on the underlying transactions.

Stock Performance Graph

The comparison above assumes \$100 invested on December 31, 2005, in AT&T common stock, Standard & Poor's 500 Index (S&P 500), and Standard & Poor's 500 Integrated Telecom Index (S&P 500 Integrated Telecom). Total return equals stock price appreciation plus reinvestment of dividends.

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Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Dollars in millions except per share amounts

RISK FACTORS

In addition to the other information set forth in this document, including the matters contained under the caption "Cautionary Language Concerning Forward-Looking Statements," you should carefully read the matters described below. We believe that each of these matters could materially affect our business. We recognize that most of these factors are beyond our ability to control and therefore we cannot predict an outcome. Accordingly, we have organized them by first addressing general factors, then industry factors and, finally, items specifically applicable to us.

A worsening U.S. economy would magnify our customers' and suppliers' current financial difficulties and could materially adversely affect our business.

We provide services and products to consumers and large and small businesses in the United States and to larger businesses throughout the world. Current economic conditions in the U.S. have adversely affected our customers' demand for and ability to pay for existing services, especially local landline service, and their interest in purchasing new services. Our suppliers are also facing higher financing and operating costs. Should these current economic conditions worsen, we likely would experience both a decrease in revenues and an increase in certain expenses, including expenses relating to bad debt and equipment and software maintenance. We also may incur difficulties locating financially stable equipment and other suppliers, thereby affecting our ability to offer attractive new services. We are also likely to experience greater pressure on pricing and margins as we continue to compete for customers who would have even less discretionary income. While our largest business customers have been less affected by these adverse changes in the U.S. economy, if the continued adverse economic conditions in the U.S., Europe and other foreign markets persist or worsen, those customers would likely be affected in a similar manner.

Adverse changes in medical costs and the U.S. securities markets and interest rates could materially increase our benefit plan costs.

Our annual pension and postretirement costs are subject to increases, primarily due to continuing increases in medical and prescription drug costs, and can be affected by lower returns on funds held by our pension and other benefit plans, which are reflected in our financial statements for that year. Investment returns on these funds depend largely on trends in the U.S. securities markets and the U.S. economy. It is also unclear how many provisions of the new national healthcare law will apply to us since many regulations implementing the law have not been finalized. In addition, there have been third-party challenges to the constitutionality of the new national healthcare law that, if sustained, could have an impact on our accounting for related costs. In calculating the annual costs included on our financial statements of providing benefits under our plans, we have made certain assumptions regarding future investment returns, medical costs and interest rates. If actual investment returns, medical costs and interest rates are worse than those previously assumed, our annual costs will increase.

The FASB requires companies to recognize the funded status of defined benefit pension and postretirement plans as an asset or liability in our statement of financial position and to recognize changes in that funded status in the year in which the changes occur. We have elected to reflect the annual adjustments to the funded status in our consolidated statement of income. Therefore, an increase in our costs or adverse market conditions will have a negative effect on our operating

results.

The ongoing uncertainty in global financial markets could materially adversely affect our ability and our larger customers' ability to access capital needed to fund business operations.

The continuing instability in the global financial markets has resulted in periodic volatility in the credit, currency, equity and fixed income markets. Volatility has limited, in some cases severely, companies' access to the credit markets, leading to higher borrowing costs for companies or, in some cases, the inability of these companies to fund their ongoing operations. As a result, our larger customers, who tend to be heavy users of our data and wireless services, may be forced to delay or reduce or be unable to finance purchases of our products and services and may delay payment or default on outstanding bills to us. In addition, we contract with large financial institutions to support our own treasury operations, including contracts to hedge our exposure on interest rates and foreign exchange and the funding of credit lines and other short-term debt obligations, including commercial paper. These financial institutions also face new capital-related and other regulations in the U.S. and Europe, as well as ongoing legal and financial issues concerning their loan portfolios, which may hamper their ability to provide credit or raise the cost of providing such credit. While we have been successful in continuing to access the credit and fixed income markets when needed, a financial crisis could render us unable to access these markets, severely affecting our business operations.

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Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Dollars in millions except per share amounts

Changes in available technology could increase competition and our capital costs.

The telecommunications industry has experienced rapid changes in the last several years. The development of wireless, cable and IP technologies has significantly increased the commercial viability of alternatives to traditional wireline telephone service and enhanced the capabilities of wireless networks. In order to remain competitive, we are deploying a more sophisticated wireline network and continue to deploy a more sophisticated wireless network, as well as research other new technologies. If the new technologies we have adopted or on which we have focused our research efforts fail to be cost-effective and accepted by customers, our ability to remain competitive could be materially adversely affected.

Changes to federal, state and foreign government regulations and decisions in regulatory

proceedings could materially adversely affect us.

Our wireline subsidiaries are subject to significant federal and state regulation while many of our competitors are not. In addition, our subsidiaries and affiliates operating outside the U.S. are also subject to the jurisdiction of national and supranational regulatory authorities in the market where service is provided. Our wireless subsidiaries are regulated to varying degrees by the FCC and some state and local agencies. Adverse rulings by the FCC relating to broadband issues could impede our ability to manage our networks and recover costs and lessen incentives to invest in our networks. The development of new technologies, such as IP-based services, also has created or potentially could create conflicting regulation between the FCC and various state and local authorities, which may involve lengthy litigation to resolve and may result in outcomes unfavorable to us. In addition, increased public focus on potential global climate changes has led to proposals at state, federal and foreign government levels to increase regulation on various types of emissions, including those generated by vehicles and by facilities consuming large amounts of electricity.

Increasing competition in the wireless industry could adversely affect our operating results.

We have multiple wireless competitors in each of our service areas and compete for customers based principally on price, service/device offerings, call quality, coverage area and customer service. In addition, we are likely to experience growing competition from providers offering services using alternative wireless technologies and IP-based networks as well as traditional wireline networks. We expect market saturation to continue to cause the wireless industry's customer growth rate to moderate in comparison with historical growth rates, leading to increased competition for customers. We expect that the availability of additional 700 MHz spectrum could increase competition and the effectiveness of existing competition. This competition will continue to put pressure on pricing and margins as companies compete for potential customers. Our ability to respond will depend, among other things, on continued improvement in network quality and customer service and effective marketing of attractive products and services, and cost management. These efforts will involve significant expenses and require strategic management decisions on, and timely implementation of, equipment choices and deployment, and service offerings.

Increasing competition in our wireline markets could adversely affect wireline operating margins.

We expect competition in the telecommunications industry to continue to intensify. We expect this competition will continue to put pressure on pricing, margins and customer retention. A number of our competitors that rely on alternative technologies (e.g., wireless, cable and VoIP) and business models (e.g., advertising-supported) are typically subject to less (or no) regulation than our wireline and ATTC subsidiaries and therefore are able to operate with lower costs. These competitors also have cost advantages compared to us, due in part to a nonunionized workforce, lower employee benefits

and fewer retirees (as most of the competitors are relatively new companies). We believe such advantages can be offset by continuing to increase the efficiency of our operating systems and by improving employee training and productivity; however, there can be no guarantee that our efforts in these areas will be successful.

Continuing growth in our wireless services will depend on continuing access to adequate spectrum, deployment of new technology and offering attractive services to customers.

The wireless industry is undergoing rapid and significant technological changes and a dramatic increase in usage, in particular demand for and usage of data and other non-voice services. We must continually invest in our wireless network in order to continually improve our wireless service to meet this increasing demand and remain competitive. Improvements in our service depend on many factors, including continued access to and deployment of adequate spectrum. We must maintain and expand our network capacity and coverage as well as the associated wireline network needed to transport voice and data between cell sites. Network service enhancements and product launches may not occur as scheduled or at the cost expected due to many factors, including delays in determining equipment and handset operating standards, supplier delays, increases in network equipment and handset component costs, regulatory permitting delays for tower sites or enhancements or labor-related delays. Deployment of new technology also may adversely affect the performance of the network for existing services. If the FCC does not allocate sufficient spectrum to allow the wireless industry in general, and the company in particular, to increase its capacity or if we cannot deploy the services customers desire on a timely basis or at adequate cost while maintaining network quality levels, then our ability to attract and retain customers, and therefore maintain and improve our operating margins, could be materially adversely affected.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Dollars in millions except per share amounts

Equipment failures, natural disasters and terrorist attacks may materially adversely affect our operations.

Major equipment failures or natural disasters, including severe weather, terrorist acts or other breaches of network or IT security that affect our wireline and wireless networks, including telephone switching offices, microwave links, third-party owned local and long-distance networks on which we rely, our cell sites or other equipment, could have a material adverse effect on our operations. While

we have insurance coverage for some of these events, our inability to operate our wireline or wireless systems, even for a limited time period, may result in significant expenses, a loss of customers or impair our ability to attract new customers, which could have a material adverse effect on our business, results of operations and financial condition.

The continued success of our U-verse services initiative will depend on the timing, extent and cost of deployment; the development of attractive and profitable service offerings; the extent to which regulatory, franchise fees and build-out requirements apply to this initiative; and the availability and reliability of the various technologies required to provide such offerings.

The trend in telecommunications technology is to shift from the traditional circuit- and wire-based technology to IP-based technology. IP-based technology can transport voice and data, as well as video, from both wired and wireless networks. IP-based networks also potentially cost less to operate than traditional networks. Our competitors, many of which are newer companies, are deploying this IP-based technology. In order to continue to offer attractive and competitively priced services, we are deploying a new broadband network to offer IP-based voice, data and video services. Using a new and sophisticated technology on a very large scale entails risks but also presents opportunities to expand service offerings to customers. Should deployment of our network be delayed or costs exceed expected amounts, our margins would be adversely affected and such effects could be material. Should regulatory requirements be different than we anticipated, our deployment could be delayed, perhaps significantly, or limited to only those geographical areas where regulation is not burdensome. In addition, should the delivery of services expected to be deployed on our network be delayed due to technological or regulatory constraints, performance of suppliers, or other reasons, or the cost of providing such services becomes higher than expected, customers may decide to purchase services from our competitors, which would adversely affect our revenues and margins, and such effects could be material.

Unfavorable litigation or governmental investigation results could require us to pay significant amounts or lead to onerous operating procedures.

We are subject to a number of lawsuits both in the U.S. and in foreign countries, including, at any particular time, claims relating to antitrust, patent infringement, wage and hour, personal injury, and our advertising, sales and billing and collection practices. We also spend substantial resources complying with various government standards, which may entail related investigations. As we deploy newer technologies, especially in the wireless area, we also face current and potential litigation relating to alleged adverse health effects on customers or employees who use such technologies including, for example, wireless handsets. We may incur significant expenses defending such suits or government charges and may be required to pay amounts or otherwise change our operations in ways that could materially adversely affect our operations or financial results.

CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward-looking statements that are subject to risks and uncertainties, and actual results could differ materially. Many of these factors are discussed in more detail in the "Risk Factors" section. We claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

The following factors could cause our future results to differ materially from those expressed in the forward-looking statements:

.

Adverse economic and/or capital access changes in the markets served by us or in countries in which we have significant investments, including the impact on customer demand and our ability and our suppliers' ability to access financial markets.

.

Changes in available technology and the effects of such changes, including product substitutions and deployment costs.

.

Increases in our benefit plans' costs, including increases due to adverse changes in the U.S. and foreign securities markets, resulting in worse-than-assumed investment returns and discount rates and adverse medical cost trends and unfavorable healthcare legislation and regulations.

.

The final outcome of Federal Communications Commission and other federal agency proceedings and reopenings of such proceedings and judicial review, if any, of such proceedings, including issues relating to access charges, broadband deployment, E911 services, competition, net neutrality, unbundled loop and transport elements, wireless license awards and renewals and wireless services.

.

The final outcome of regulatory proceedings in the states in which we operate and reopenings of such proceedings and judicial review, if any, of such proceedings, including proceedings relating to Interconnection terms, access charges, universal service, unbundled network elements and resale and wholesale rates, broadband deployment including our U-verse services, net neutrality, performance measurement plans, service standards and traffic compensation.

.

Enactment of additional state, federal and/or foreign regulatory and tax laws and regulations pertaining to our subsidiaries and foreign investments, including laws and regulations that reduce our incentive to invest in our networks, resulting in lower revenue growth and/or higher operating costs.

.

Our ability to absorb revenue losses caused by increasing competition, including offerings that use alternative technologies (e.g., cable, wireless and VoIP) and our ability to maintain capital expenditures.

.

The extent of competition and the resulting pressure on customer and access line totals and wireline and wireless operating margins.

.

Our ability to develop attractive and profitable product/service offerings to offset increasing competition in our wireless and wireline markets.

.

The ability of our competitors to offer product/service offerings at lower prices due to lower cost structures and regulatory and legislative actions adverse to us, including state regulatory proceedings relating to unbundled network elements and nonregulation of comparable alternative technologies (e.g., VoIP).

.

The timing, extent and cost of deployment of our U-verse services; the development of attractive and profitable service offerings; the extent to which regulatory, franchise fees and build-out requirements apply to this initiative; and the availability, cost and/or reliability of the various technologies and/or content required to provide such offerings.

.

Our continued ability to attract and offer a diverse portfolio of devices, some on an exclusive basis.

.

The availability and cost of additional wireless spectrum and regulations relating to licensing and technical standards and deployment and usage, including network management rules.

.

Our ability to manage growth in wireless data services, including network quality.

.

The outcome of pending or threatened litigation, including patent and product safety claims by or against third parties.

.

The impact on our networks and business from major equipment failures, our inability to obtain handsets, equipment/software or have handsets, equipment/software serviced in a timely and cost-effective manner from suppliers, severe weather conditions, natural disasters, pandemics, energy shortages, wars or terrorist attacks.

.

The issuance by the Financial Accounting Standards Board or other accounting oversight bodies of new accounting standards or changes to existing standards.

.

The issuance by the Internal Revenue Service and/or state tax authorities of new tax regulations or changes to existing standards and actions by federal, state or local tax agencies and judicial authorities with respect to applying applicable tax laws and regulations and the resolution of disputes with any taxing jurisdictions.

.

Our ability to adequately fund our wireless operations, including payment for additional spectrum; network upgrades and technological advancements.

.

Changes in our corporate strategies, such as changing network requirements or acquisitions and dispositions, which may require significant amounts of cash or stock, to respond to competition and regulatory, legislative and technological developments.

Readers are cautioned that other factors discussed in this report, although not enumerated here, also could materially affect our future earnings.

AT&T Inc.

Consolidated Statements of Income

Dollars in millions except per share amounts

2010

2009

2008

Operating Revenues

As Adjusted

Wireless service

\$ 53,510	\$ 48,563	\$ 44,249
-----------	-----------	-----------

Voice

28,315	32,324	37,322
--------	--------	--------

Data

27,479	25,561	24,416
--------	--------	--------

Directory

3,935	4,724	5,416
-------	-------	-------

Other

11,041	11,341	12,040
--------	--------	--------

Total operating revenues

124,280	122,513	123,443
---------	---------	---------

Operating Expenses

Cost of services and sales (exclusive of depreciation and amortization shown separately below)

52,263	50,571	56,688
--------	--------	--------

Selling, general and administrative

33,065	31,427	48,772
--------	--------	--------

Depreciation and amortization

19,379	19,515	19,673
--------	--------	--------

Total operating expenses

104,707	101,513	125,133
---------	---------	---------

Operating Income (Loss)

19,573	21,000	(1,690)
--------	--------	----------

Other Income (Expense)

Interest expense

(2,994)	(3,368)	(3,369)
----------	----------	----------

Equity in net income of affiliates

762	734	819
-----	-----	-----

Other income (expense) ? net

897	152	(332)
-----	-----	--------

Total other income (expense)

(1,335)	(2,482)	(2,882)
----------	----------	----------

Income (Loss) from Continuing Operations Before Income Taxes

18,238	18,518	(4,572)
--------	--------	----------

Income tax (benefit) expense

(1,162)	6,091	(2,210)
----------	-------	----------

Income (Loss) from Continuing Operations

19,400	12,427	(2,362)
--------	--------	----------

Income (Loss) from Discontinued Operations, net of tax

779	20	(2)
-----	----	------

Net Income (Loss)

20,179	12,447	(2,364)
--------	--------	----------

Less: Net Income Attributable to Noncontrolling Interest

(315)	(309)	(261)
--------	--------	--------

Net Income (Loss) Attributable to AT&T

\$ 19,864	\$ 12,138	\$ (2,625)
-----------	-----------	-------------

Basic Earnings (Loss) Per Share from Continuing Operations Attributable to AT&T

\$ 3.23	\$ 2.06	\$ (0.44)
---------	---------	------------

Basic Earnings Per Share from Discontinued Operations Attributable to AT&T

0.13	-	-
------	---	---

Basic Earnings (Loss) Per Share Attributable to AT&T

\$ 3.36	\$ 2.06	\$ (0.44)
---------	---------	------------

Diluted Earnings (Loss) Per Share from Continuing Operations Attributable to AT&T

\$ 3.22 \$ 2.05 \$ (0.44)

Diluted Earnings Per Share from Discontinued Operations Attributable to AT&T

0.13 - -

Diluted Earnings (Loss) Per Share Attributable to AT&T

\$ 3.35 \$ 2.05 \$ (0.44)

The accompanying notes are an integral part of the consolidated financial statements.

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AT&T Inc.

Consolidated Balance Sheets

Dollars in millions except per share amounts

December 31,

2010

2009

Assets

As Adjusted

Current Assets

Cash and cash equivalents

\$ 1,437 \$ 3,741

Accounts receivable ? net of allowances for doubtful accounts of \$957 and \$1,202

13,610 14,845

Prepaid expenses

1,458 1,562

Deferred income taxes

1,170 1,247

Other current assets

	2,276	3,792
Total current assets		
	19,951	25,187
Property, Plant and Equipment ? Net		
	103,196	99,519
Goodwill		
	73,601	72,782
Licenses		
	50,372	48,741
Customer Lists and Relationships ? Net		
	4,708	7,393
Other Intangible Assets ? Net		
	5,440	5,494
Investments in Equity Affiliates		
	4,515	2,921
Other Assets		
	6,705	6,275
Total Assets		
	\$ 268,488	\$ 268,312

Liabilities and Stockholders? Equity

Current Liabilities

Debt maturing within one year		
	\$ 7,196	\$ 7,361
Accounts payable and accrued liabilities		
	20,055	21,260
Advanced billing and customer deposits		
	4,086	4,170
Accrued taxes		
	72	1,681
Dividends payable		
	2,542	2,479
Total current liabilities		
	33,951	36,951
Long-Term Debt		
	58,971	64,720
Deferred Credits and Other Noncurrent Liabilities		

Deferred income taxes

22,070	23,579
--------	--------

Postemployment benefit obligation

28,803	27,847
--------	--------

Other noncurrent liabilities

12,743	13,226
--------	--------

Total deferred credits and other noncurrent liabilities

63,616	64,652
--------	--------

Stockholders' Equity

Common stock (\$1 par value, 14,000,000,000 authorized at December 31, 2010 and 2009; issued 6,495,231,088 at December 31, 2010 and 2009)

6,495	6,495
-------	-------

Additional paid-in capital

91,731	91,707
--------	--------

Retained earnings

31,792	21,944
--------	--------

Treasury stock (584,144,220 at December 31, 2010, and 593,300,187 at December 31, 2009, at cost)

(21,083)	(21,260)
-----------	-----------

Accumulated other comprehensive income

2,712	2,678
-------	-------

Noncontrolling interest

303	425
-----	-----

Total stockholders' equity

111,950	101,989
---------	---------

Total Liabilities and Stockholders' Equity

\$ 268,488	\$ 268,312
------------	------------

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

Dollars in millions

2010

2009

2008

Operating Activities

As Adjusted

Net income (loss)

\$ 20,179 \$ 12,447 \$ (2,364)

Adjustments to reconcile net income (loss) to net cash provided
by operating activities:

Depreciation and amortization

19,379 19,515 19,673

Undistributed earnings from investments in equity affiliates

(603) (419) (654)

Provision for uncollectible accounts

1,334 1,762 1,795

Deferred income tax expense (benefit) and noncurrent unrecognized tax benefits

(3,280) 1,885 (4,202)

Net (gain) loss from impairment and sale of investments

(802) - 517

Actuarial loss on pension and postretirement benefit plans

2,521 215 25,150

(Income) loss from discontinued operations

(779) (20) 2

Changes in operating assets and liabilities:

Accounts receivable

(99) (490) (1,475)

Other current assets

717 (617) 1,854

Accounts payable and accrued liabilities

(2,414) 943 (4,456)

Net income attributable to noncontrolling interest

(315) (309) (261)

Other ? net

(845) (507) (1,969)

Total adjustments

14,814 21,958 35,974

Net Cash Provided by Operating Activities

34,993 34,405 33,610

Investing Activities

Construction and capital expenditures:

Capital expenditures

(19,530) (16,554) (19,631)

Interest during construction

(772) (740) (659)

Acquisitions, net of cash acquired

(2,906) (983) (10,972)

Dispositions

1,830 287 1,615

(Purchases) and sales of securities, net

(100) 55 68

Sale of other investments

- - 436

Other

29 52 45

Net Cash Used in Investing Activities

(21,449) (17,883) (29,098)

Financing Activities

Net change in short-term borrowings with original maturities of three months or less

1,592 (3,910) 2,017

Issuance of long-term debt

2,235 8,161 12,416

Repayment of long-term debt

	(9,294)	(8,652)	(4,009)
Purchase of treasury shares	-	-	(6,077)
Issuance of treasury shares	50	28	319
Dividends paid	(9,916)	(9,670)	(9,507)
Other	(515)	(465)	151
Net Cash Used in Financing Activities	(15,848)	(14,508)	(4,690)
Net increase (decrease) in cash and cash equivalents	(2,304)	2,014	(178)
Cash and cash equivalents beginning of year	3,741	1,727	1,905
Cash and Cash Equivalents End of Year	\$ 1,437	\$ 3,741	\$ 1,727

The accompanying notes are an integral part of the consolidated financial statements.

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AT&T Inc.

Consolidated Statements of Changes in Stockholders' Equity

Dollars and shares in millions except per share amounts

	2010	2009	2008
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Shares

Amount

Shares

Amount

Shares

Amount

As Adjusted

Common Stock

Balance at beginning of year

6,495	\$ 6,495	6,495	\$ 6,495	6,495	\$ 6,495
-------	----------	-------	----------	-------	----------

Issuance of shares

-	-	-	-	-	-
---	---	---	---	---	---

Balance at end of year

6,495	\$ 6,495	6,495	\$ 6,495	6,495	\$ 6,495
-------	----------	-------	----------	-------	----------

Additional Paid-In Capital

Balance at beginning of year

\$ 91,707	\$ 91,728	\$ 91,638
-----------	-----------	-----------

Issuance of treasury shares

159	29	87
-----	----	----

Share-based payments

(130)	(50)	3
--------	-------	---

Change related to acquisition of interests held by noncontrolling owners

(5)	-	-
------	---	---

Balance at end of year

\$ 91,731	\$ 91,707	\$ 91,728
-----------	-----------	-----------

Retained Earnings

Balance at beginning of year

\$ 21,944	\$ 19,566	\$ 31,764
-----------	-----------	-----------

Net income (loss) attributable to AT&T (\$3.35, \$2.05, and \$(0.44) per diluted share)

19,864	12,138	(2,625)
--------	--------	----------

Dividends to stockholders (\$1.69, \$1.65, and \$1.61 per share)

(9,985)	(9,733)	(9,506)
----------	----------	----------

Other

(31)	(27)	(67)
-------	-------	-------

Balance at end of year			
	\$ 31,792	\$ 21,944	\$ 19,566

Treasury Stock

Balance at beginning of year					
	(593)	\$ (21,260)	(602)	\$ (21,410)	(451) \$ (15,683)
Purchase of shares					
	-	-	-	(164)	(6,077)
Issuance of shares					
	9	177	9	150	13 350
Balance at end of year					
	(584)	\$ (21,083)	(593)	\$ (21,260)	(602) \$ (21,410)

The accompanying notes are an integral part of the consolidated financial statements.

AT&T Inc.

Consolidated Statements of Changes in Stockholders' Equity (continued)

Dollars and shares in millions except per share amounts

2010

2009

2008

Amount

Amount

Amount

As Adjusted

Accumulated Other Comprehensive Income (Loss) Attributable to AT&T, net of tax:

Balance at beginning of year

\$ 2,678 \$ (418) \$ 662

Foreign currency translation adjustments, net of taxes of \$146, \$70, and \$(239)

271 147 (443)

Net unrealized gains (losses) on available-for-sale securities:

Unrealized gains (losses), net of taxes of \$(12), \$84, and \$(139)

(22) 176 (259)

Less reclassification adjustment realized in net income (loss), net of taxes of \$7, \$23, and \$(9)

14 48 (16)

Net unrealized gains (losses) on cash flow hedges:

Unrealized gains (losses), net of taxes of \$(182), \$329, and \$(148)

(334) 610 (274)

Less reclassification adjustment realized in net income (loss), net of taxes of \$7, \$8, and \$9

12 15 17

Defined benefit postretirement plans (see Notes 1 and 11):

Net prior service benefit arising during period, net of taxes of \$298, \$1,383, and \$20

487 2,257 32

Amortization of net prior service cost included in net income (loss), net of taxes of \$(243), \$(96), and \$(84)

(396) (156) (137)

Other

2 (1) -

Other comprehensive income (loss) attributable to AT&T

34 3,096 (1,080)

Balance at end of year

\$ 2,712 \$ 2,678 \$ (418)

Noncontrolling Interest:

Balance at beginning of year

\$ 425 \$ 403 \$ 380

Net income attributable to noncontrolling interest

315 309 261

Distributions

(278)	(286)	(260)
Acquisition of interests held by noncontrolling owners		
(162)	-	-
Translation adjustments applicable to noncontrolling interest, net of tax		
3	(1)	22
Balance at end of year		
\$ 303	\$ 425	\$ 403

Total Stockholders' Equity at beginning of year		
\$ 101,989	\$ 96,364	\$ 115,256
Total Stockholders' Equity at end of year		
\$ 111,950	\$ 101,989	\$ 96,364

Total Comprehensive Income (Loss), net of tax:

Net income (loss) attributable to AT&T		
\$ 19,864	\$ 12,138	\$ (2,625)
Other comprehensive income (loss) attributable to AT&T per above		
34	3,096	(1,080)
Comprehensive income (loss) attributable to AT&T		
\$ 19,898	\$ 15,234	\$ (3,705)

Net income attributable to noncontrolling interest		
\$ 315	\$ 309	\$ 261
Other comprehensive income (loss) attributable to noncontrolling interest per above		
3	(1)	22
Comprehensive income attributable to noncontrolling interest		
\$ 318	\$ 308	\$ 283
Total Comprehensive Income (Loss)		
\$ 20,216	\$ 15,542	\$ (3,422)

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation Throughout this document, AT&T Inc. is referred to as "AT&T," "we" or the "Company." The consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries and affiliates. Our subsidiaries and affiliates operate in the communications services industry both domestically and internationally, providing wireless and wireline communications services and equipment, managed networking, wholesale services, and advertising solutions.

All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships and less than majority-owned subsidiaries where we have significant influence are accounted for under the equity method. Earnings from certain foreign equity investments accounted for using the equity method are included for periods ended within up to one month of our year end (see Note 7).

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including estimates of probable losses and expenses. Actual results could differ from those estimates. We have reclassified certain amounts in prior-period financial statements to conform to the current period's presentation. See Note 2 for a discussion of changes in reporting related to discontinued operations, and Notes 4 and 11 for a discussion of our changes in accounting and reporting for our pension and other postretirement benefit costs and intersegment activity.

Pension and Other Postretirement Benefits In January 2011, we announced a change in our method of recognizing actuarial gains and losses for pension and other postretirement benefits for all benefit plans. Historically, we have recognized the actuarial gains and losses as a component of the Stockholders' Equity on our consolidated balance sheets on an annual basis and have amortized them into our operating results over the average future service period of the active employees of these plans, to the extent such gains and losses were outside of a corridor. We have elected to immediately recognize actuarial gains and losses in our operating results, noting that it is generally preferable to accelerate the recognition of deferred gains and losses into income rather than to delay such recognition. This change will improve transparency in our operating results by more quickly recognizing the effects of economic and interest rate conditions on plan obligations, investments and assumptions. These gains and losses are generally only measured annually as of December 31 and

accordingly will be recorded during the fourth quarter. Additionally, for purposes of calculating the expected return on plan assets, we will no longer use a permitted averaging technique for the market-related value of plan assets but instead will use actual fair value of plan assets. We have applied these changes retrospectively, adjusting all prior periods. The cumulative effect of the change on retained earnings as of January 1, 2008, was a reduction of \$1,533, with an offset to accumulated other comprehensive income (OCI). The annual recognition of actuarial gains and losses, which is reported as "Actuarial loss on pension and postretirement benefit plans" on our consolidated statement of cash flows total \$2,521 in 2010, \$215 in 2009 and \$25,150 in 2008. This change did not have a material impact on cash provided by or used in operations for any period presented.

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Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The following table presents our results under our historical method and as adjusted to reflect the accounting change:

Historical Accounting Method

As Adjusted

Effect of Change

At December 31, 2010 or for the year ended

Cost of services and sales (exclusive of depreciation and amortization shown separately below)

\$ 51,379	\$ 52,263	\$ 884
-----------	-----------	--------

Selling, general and administrative

31,221	33,065	1,844
--------	--------	-------

Depreciation and amortization^{1,2}

19,456	19,379	(77)
--------	--------	-------

Income tax (benefit) expense²

(155)	(1,162)	(1,007)
--------	----------	----------

Income from Continuing Operations

21,045	19,400	(1,645)
--------	--------	----------

Net Income Attributable to AT&T2

21,508	19,864	(1,644)
--------	--------	----------

Basic Earnings per Share Attributable to AT&T

\$ 3.64	\$ 3.36	\$ (0.28)
---------	---------	------------

Diluted Earnings per Share Attributable to AT&T

3.62	3.35	(0.27)
------	------	---------

Property, Plant and Equipment ? Net1

\$ 103,564	\$ 103,196	\$ (368)
------------	------------	-----------

Deferred income taxes

22,210	22,070	(140)
--------	--------	--------

Retained Earnings

50,859	31,792	(19,067)
--------	--------	-----------

Accumulated other comprehensive income

(16,128)	2,712	18,840
-----------	-------	--------

At December 31, 2009 or for the year ended

Cost of services and sales (exclusive of depreciation and amortization shown separately below)

\$ 50,517	\$ 50,571	\$ 54
-----------	-----------	-------

Selling, general and administrative

30,943	31,427	484
--------	--------	-----

Depreciation and amortization1,2

19,602	19,515	(87)
--------	--------	-------

Income tax (benefit) expense2

6,146	6,091	(55)
-------	-------	-------

Income from Continuing Operations

12,824	12,427	(397)
--------	--------	--------

Net Income Attributable to AT&T2

12,535	12,138	(397)
--------	--------	--------

Basic Earnings per Share Attributable to AT&T

\$ 2.12	\$ 2.06	\$ (0.06)
---------	---------	------------

Diluted Earnings per Share Attributable to AT&T

2.12	2.05	(0.07)
------	------	---------

Property, Plant and Equipment ? Net1

\$ 100,052	\$ 99,519	\$ (533)
------------	-----------	-----------

Deferred income taxes

23,781	23,579	(202)
--------	--------	--------

Retained Earnings

39,366	21,944	(17,422)
--------	--------	-----------

Accumulated other comprehensive income

(14,412)	2,678	17,090
-----------	-------	--------

At December 31, 2008 or for the year ended

Cost of services and sales (exclusive of depreciation and amortization shown separately below)

\$ 49,878	\$ 56,688	\$ 6,810
-----------	-----------	----------

Selling, general and administrative

30,752	48,772	18,020
--------	--------	--------

Depreciation and amortization^{1,2}

19,766	19,673	(93)
--------	--------	-------

Income tax (benefit) expense²

7,034	(2,210)	(9,244)
-------	----------	----------

Income (Loss) from Continuing Operations

13,130	(2,362)	(15,492)
--------	----------	-----------

Net Income (Loss) Attributable to AT&T²

12,867	(2,625)	(15,492)
--------	----------	-----------

Basic Earnings (Loss) per Share Attributable to AT&T

\$ 2.17	\$ (0.44)	\$ (2.61)
---------	------------	------------

Diluted Earnings (Loss) per Share Attributable to AT&T

2.16	(0.44)	(2.60)
------	---------	---------

Property, Plant and Equipment ? Net¹

\$ 99,037	\$ 98,415	\$ (622)
-----------	-----------	-----------

Deferred income taxes

19,171	18,935	(236)
--------	--------	--------

Retained Earnings

36,591	19,566	(17,025)
--------	--------	-----------

Accumulated other comprehensive income

(17,057)	(418)	16,639
-----------	--------	--------

1 A portion of pension and postretirement costs are capitalized as a part of construction labor.

2 The effect of the accounting change is also reflected in our consolidated statements of cash flows, included in ?Net income (loss)? and relevant adjustments to reconcile net income (loss) to net cash provided by operating activities.

Recent Accounting Standards

Fair Value Measurements and Disclosures In January 2010, the Financial Accounting Standards Board (FASB) issued "Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements" (ASU 2010-06), which required new disclosures and explanations for transfers of financial assets and liabilities between levels in the fair value hierarchy. ASU 2010-06 also clarifies that fair value measurement disclosures are required for each class of financial asset and liability, which may be a subset of a caption in the consolidated balance sheets, and those disclosures should include a discussion of inputs and valuation techniques. For financial assets and liabilities subject to lowest-level measurements (Level 3), ASU 2010-06 further requires that we separately present purchases, sales, issuances, and settlements instead of netting these changes.

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Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Revenue Arrangements with Multiple Deliverables In October 2009, the FASB issued "Multiple-Deliverable Revenue Arrangements" (ASU 2009-13), which addresses how revenues should be allocated among all products and services included in our bundled sales arrangements. It establishes a selling price hierarchy for determining the selling price of each product or service, with vendor-specific objective evidence at the highest level, third-party evidence at the intermediate level, and a best estimate at the lowest level. It eliminates the residual method as an acceptable allocation method, and requires the use of the relative selling price method as the basis for allocation. It also significantly expands the disclosure requirements for such arrangements, including, potentially, certain qualitative disclosures. We adopted ASU 2009-13 for sales entered into or materially modified in the year beginning January 1, 2011. ASU 2009-13 had no material effect on our financial statements or existing revenue recognition policies.

Employee Separations We established obligations for expected termination benefits provided under existing plans to former or inactive employees after employment but before retirement. These benefits include severance payments, workers' compensation, disability, medical continuation coverage, and other benefits. At December 31, 2010, we had severance accruals of \$848 and at December 31, 2009, we had severance accruals of \$669. During the fourth quarter of 2010, we accrued \$756 in conjunction with ongoing cost reduction initiatives.

Income Taxes We provide deferred income taxes for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the computed tax basis of those assets and liabilities. The tax basis of assets and liabilities are based on amounts that meet the recognition threshold and are measured pursuant to the measurement requirement in current standards. We provide valuation allowances against the deferred tax assets for which the realization is uncertain. We review these items regularly in light of changes in federal and state tax laws and changes in our business.

We report, on a net basis, taxes imposed by governmental authorities on revenue-producing transactions between us and our customers in our consolidated statements of income.

Cash and Cash Equivalents Cash and cash equivalents include all highly-liquid investments with original maturities of three months or less. The carrying amounts approximate fair value. At December 31, 2010, we held \$332 in cash and \$1,105 in money market funds and other cash equivalents.

Revenue Recognition Revenues derived from wireless, local telephone, long-distance, data and video services are recognized when services are provided. This is based upon either usage (e.g., minutes of traffic/bytes of data processed), period of time (e.g., monthly service fees) or other established fee schedules. Our wireless service revenues are billed either in advance, arrears or are prepaid. Our wireless Rollover® rate plans include a feature whereby unused anytime minutes do not expire each month but rather are available, under certain conditions, for future use for a period not to exceed one year from the date of purchase. Using historical subscriber usage patterns, we defer these revenues based on an estimate of the portion of unused minutes expected to be utilized prior to expiration.

We record an estimated revenue reduction for future adjustments to customer accounts, other than bad debt expense, at the time revenue is recognized based on historical experience. Service revenues also include billings to our customers for various regulatory fees imposed on us by governmental authorities. Cash incentives given to customers are recorded as a reduction of revenue. When required as part of providing service, revenues and associated expenses related to nonrefundable, upfront service activation and setup fees are deferred and recognized over the associated service contract period or customer life. Associated expenses are deferred only to the extent of such deferred revenue. For contracts that involve the bundling of services, revenue is allocated to the services based on their relative fair value. We record the sale of equipment to customers as gross revenue when we are the primary obligor in the arrangement, when title is passed and when the products are accepted by customers. For agreements involving the resale of third-party services in which we are not considered the primary obligor of the arrangement, we record the revenue net of the associated costs incurred. For contracts in which we provide customers with

an infeasible right to use network capacity, we recognize revenue ratably over the stated life of the agreement.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

We recognize revenues and expenses related to publishing directories on the amortization method, which recognizes revenues and expenses ratably over the life of the directory title, typically 12 months.

Traffic Compensation Expense We use various estimates and assumptions to determine the amount of traffic compensation expenses recognized during any reporting period. Switched traffic compensation costs are accrued utilizing estimated rates by product, formulated from historical data and adjusted for known rate changes and volume levels. Such estimates are adjusted monthly to reflect newly-available information, such as rate changes and new contractual agreements. Bills reflecting actual incurred information are generally not received until three to nine months subsequent to the end of the reporting period, at which point a final adjustment is made to the accrued switched traffic compensation expense. Dedicated traffic compensation costs are estimated based on the number of circuits and the average projected circuit costs.

Allowance for Doubtful Accounts We maintain an allowance for doubtful accounts for estimated losses that result from the failure or inability of our customers to make required payments. When determining the allowance, we consider the probability of recoverability of accounts receivable based on past experience, taking into account current collection trends as well as general economic factors, including bankruptcy rates. Credit risks are assessed based on historical write-offs, net of recoveries, as well as an analysis of the aged accounts receivable balances with allowances generally increasing as the receivable ages. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as pending bankruptcy or catastrophes.

Inventory Inventories, which are included in "Other current assets" on our consolidated balance sheets, were \$1,303 at December 31, 2010, and \$885 at December 31, 2009. Wireless handsets and accessories, which are valued at the lower of cost or market (determined using current replacement cost) were \$1,185 as of December 31, 2010, and \$790 as of December 31, 2009. The remainder of our inventory includes new and reusable supplies and network equipment of our local telephone

operations, which are stated principally at average original cost, except that specific costs are used in the case of large individual items. Inventories of our other subsidiaries are stated at the lower of cost or market.

Property, Plant and Equipment Property, plant and equipment is stated at cost, except for assets acquired using acquisition accounting, which are initially recorded at fair value (see Note 2). The cost of additions and substantial improvements to property, plant and equipment is capitalized. The cost of maintenance and repairs of property, plant and equipment is charged to operating expenses. Property, plant and equipment costs are depreciated using straight-line methods over their estimated economic lives. Certain subsidiaries follow composite group depreciation methodology; accordingly, when a portion of their depreciable property, plant and equipment is retired in the ordinary course of business, the gross book value is reclassified to accumulated depreciation; no gain or loss is recognized on the disposition of this plant.

Property, plant and equipment is reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss shall be recognized only if the carrying amount of a long-lived asset is not recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset.

The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred if a reasonable estimate of fair value can be made. In periods subsequent to initial measurement, period-to-period changes in the liability for an asset retirement obligation resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows are recognized. The increase in the carrying value of the associated long-lived asset is depreciated over the corresponding estimated economic life.

Software Costs It is our policy to capitalize certain costs incurred in connection with developing or obtaining internal-use software. Capitalized software costs are included in "Property, Plant and Equipment" on our consolidated balance sheets and are primarily amortized over a three-year period. In addition, there is certain network software that allows the equipment to provide the features and functions unique to the AT&T network, which we include in the cost of the equipment categories for financial reporting purposes.

Business Combinations We expense acquisition-related costs and restructuring costs. Prior to 2009, we included acquisition-related costs as part of our purchase accounting, and we treated restructuring costs that we expected but were not obligated to incur, including changes to benefit plans, as if they were a liability assumed at the acquisition date. We applied current guidance to acquisitions completed after 2009, including the acquisitions of Centennial Communications Corp. (Centennial)

and certain properties from Verizon Wireless (see Note 2).

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Goodwill and Other Intangible Assets AT&T has four major classes of intangible assets: goodwill, Federal Communications Commission (FCC) licenses, other indefinite-lived intangible assets, made up predominately of the AT&T and other brand names, and various other finite-lived intangible assets.

Goodwill represents the excess of consideration paid over the fair value of net assets acquired in business combinations. FCC licenses provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services. While FCC licenses are issued for a fixed time (generally 10 years), renewals of FCC licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful lives of our FCC licenses. We acquired the rights to the AT&T and other brand names in previous acquisitions. We have the effective ability to retain these exclusive rights permanently at a nominal cost.

Goodwill, FCC licenses and other indefinite-lived intangible assets are not amortized but are tested at least annually for impairment. The testing is performed on the value as of October 1 each year, and is generally composed of comparing the book value of the assets to their fair value. Goodwill is tested by comparing the book value of each reporting unit, deemed to be our principle operating segments (Wireless, Wireline and Advertising Solutions), to the fair value of those reporting units calculated under a market multiple approach as well as a discounted cash flow approach. FCC licenses are tested for impairment on an aggregate basis, consistent with the management of the business on a national scope. Brand names are tested by comparing the book value to a fair value calculated using a discounted cash flow approach on a presumed royalty rate derived from the revenues related to the brand name.

Intangible assets that have finite useful lives are amortized over their useful lives, a weighted-average of 7.9 years (7.9 years for customer lists and relationships and 10.3 years for other). Customer lists and relationships are amortized using primarily the sum-of-the-months-digits method of amortization over the expected period in which those relationships are expected to contribute to our future cash flows. The remaining finite-lived intangible assets are generally amortized using the straight-line

method of amortization.

Advertising Costs We expense advertising costs for advertising products and services or for promoting our corporate image as we incur them (see Note 14).

Foreign Currency Translation We are exposed to foreign currency exchange risk through our foreign affiliates and equity investments in foreign companies. Our foreign subsidiaries and foreign investments generally report their earnings in their local currencies. We translate our share of their foreign assets and liabilities at exchange rates in effect at the balance sheet dates. We translate our share of their revenues and expenses using average rates during the year. The resulting foreign currency translation adjustments are recorded as a separate component of accumulated OCI in the accompanying consolidated balance sheets. We do not hedge foreign currency translation risk in the net assets and income we report from these sources. However, we do hedge a large portion of the foreign currency exchange risk involved in anticipation of highly probable foreign currency-denominated transactions, which we explain further in our discussion of our methods of managing our foreign currency risk (see Note 9).

NOTE 2. ACQUISITIONS, DISPOSITIONS, AND OTHER ADJUSTMENTS

Acquisitions

Wireless Properties Transactions In June 2010, we acquired certain wireless properties, including FCC licenses and network assets, from Verizon Wireless for \$2,376 in cash. The assets primarily represent former Alltel Wireless assets and served approximately 1.6 million subscribers in 79 service areas across 18 states. The fair value of the acquired net assets of \$1,439 included \$368 of property, plant and equipment, \$937 of goodwill, \$765 of FCC licenses, and \$224 of customer lists and other intangible assets.

As the value of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained about the facts and circumstances that existed at the acquisition date. When the valuation is final, any changes to the preliminary valuation of acquired assets and liabilities could result in adjustments to goodwill.

Centennial In December 2010, we completed our acquisition accounting for Centennial. As of December 31, 2010, the fair value measurement of Centennial's net assets acquired included \$1,518 of goodwill, \$655 of FCC licenses, and \$449 of customer lists and other intangible assets.

Other Acquisitions In 2010, we acquired \$265 of wireless spectrum from various companies, primarily in support of our ongoing network enhancement efforts, and a home monitoring platform developer and other entities for \$86 in cash. During 2009, we acquired a provider of mobile application solutions and a security consulting business for a combined \$50 before closing costs.

During 2008, we acquired Easterbrooke Cellular Corporation, Windstream Wireless, Wayport Inc., and the remaining 64% of Edge Wireless for a combined \$663, recording \$449 in goodwill. The acquisitions of these companies were designed to expand our wireless and Wi-Fi coverage area.

Pending Acquisition In December 2010, we agreed to purchase spectrum licenses in the Lower 700 MHz frequency band from Qualcomm Incorporated (Qualcomm) for approximately \$1,925 in cash. The spectrum covers more than 300 million people total nationwide, including 12 MHz of Lower 700 MHz D and E block spectrum covering more than 70 million people in five of the top 15 metropolitan areas and 6 MHz of Lower 700 MHz D block spectrum covering more than 230 million people across the rest of the U.S. We plan to deploy this spectrum as supplemental downlink capacity, using carrier aggregation technology once compatible handsets and network equipment are developed. The transaction is subject to regulatory approvals and other customary closing conditions. In February 2011, the waiting period under the Hart-Scott-Rodino Act expired without the Department of Justice (DOJ) requesting additional information. AT&T and Qualcomm anticipate closing the purchase in the second half of 2011.

Dispositions

Sale of Sterling Operations In August 2010, we sold our Sterling Commerce Inc. (Sterling) subsidiary to International Business Machines Corporation (IBM) for approximately \$1,400 in cash. Sterling provides business applications and integration solutions to approximately 18,000 customers worldwide. In conjunction with the sale, we divested \$649 of goodwill and other intangible assets. We also entered into a transition services agreement with IBM related to short-term support of Sterling's operations after the sale.

During the second quarter of 2010, we accounted for Sterling as a discontinued operation. We determined that the cash inflows under the transition services agreement and our cash outflows under the enterprise license agreement will not constitute significant continuing involvement with Sterling's operations after the sale. We have reclassified Sterling's operating results, for all historical periods, to income from discontinued operations in the accompanying consolidated statements of income. We also applied held-for-sale treatment to Sterling's assets and liabilities, and, accordingly,

included Sterling's assets in other current assets, and the related liabilities in accounts payable and accrued liabilities, on our consolidated balance sheets. Sterling's assets and liabilities included the following as of December 31:

2009

Assets held for sale:

Current assets

\$ 333

Property, plant and equipment

40

Goodwill and other intangible assets

672

Other assets

47

Total assets

\$ 1,092

Liabilities related to assets held for sale:

Current liabilities

\$ 365

Other liabilities

126

Total liabilities

\$ 491

42

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The following table includes Sterling's operating results, which we historically included in our Other segment:

Aug. 27, 2010

Dec. 31, 2009

Dec. 31, 2008

Operating revenues

\$ 349	\$ 563	\$ 633
--------	--------	--------

Operating expenses

327	523	616
-----	-----	-----

Operating income

22	40	17
----	----	----

Income (loss) before income taxes

18	29	(1)
----	----	------

Income tax expense

8	9	1
---	---	---

Income (loss) from discontinued operations during phase-out period

10	20	(2)
----	----	------

Gain on disposal of discontinued operations

769	-	-
-----	---	---

Income (loss) from discontinued operations, net of tax

\$ 779	\$ 20	\$ (2)
--------	-------	---------

Centennial In October 2009, the DOJ cleared our acquisition of Centennial, subject to the DOJ's condition that we divest Centennial's operations in eight service areas in Louisiana and Mississippi. In August 2010, we sold those eight service areas for \$273 in cash.

Other Dispositions In 2010, we also sold our domestic Japanese outsourcing services company for \$109. In 2009, we sold a professional services business for \$174 and eliminated \$113 of goodwill. In 2008, we sold to Local Insight Regatta Holdings Inc., the parent company of Local Insight Yellow Pages, the Independent Line of Business segment of the L.M. Berry Company, for \$230.

Other Adjustments During 2010, we recorded \$78 in reductions of Dobson Communications Corporation and BellSouth Corporation (BellSouth) restructuring liabilities previously included in the purchase accounting for those deals, and we recorded an offsetting reduction of goodwill.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

NOTE 3. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income from continuing operations for the years ended December 31, 2010, 2009 and 2008, are shown in the table below:

Year Ended December 31,

2010

2009

2008

Numerators

Numerator for basic earnings per share:

Income (loss) from continuing operations

\$ 19,400	\$ 12,427	\$ (2,362)
-----------	-----------	-------------

Income attributable to noncontrolling interest

(315)	(309)	(261)
--------	--------	--------

Income (loss) from continuing operations attributable to AT&T

19,085	12,118	(2,623)
--------	--------	----------

Dilutive potential common shares:

Other share-based payment

11	10	9
----	----	---

Numerator for diluted earnings per share

\$ 19,096	\$ 12,128	\$ (2,614)
-----------	-----------	-------------

Denominators (000,000)

Denominator for basic earnings per share:

Weighted-average number of common shares outstanding

5,913	5,900	5,927
-------	-------	-------

Dilutive potential common shares:

Stock options

3	3	9
---	---	---

Other share-based payment

22	21	22
----	----	----

Denominator for diluted earnings per share

5,938	5,924	5,958
-------	-------	-------

Basic earnings (loss) per share from continuing operations attributable to AT&T

\$ 3.23	\$ 2.06	\$ (0.44)
---------	---------	------------

Basic earnings per share from discontinued operations attributable to AT&T

0.13	-	-
------	---	---

Basic earnings (loss) per share attributable to AT&T

\$ 3.36	\$ 2.06	\$ (0.44)
---------	---------	------------

Diluted earnings (loss) per share from continuing operations attributable to AT&T

\$ 3.22	\$ 2.05	\$ (0.44)
---------	---------	------------

Diluted earnings per share from discontinued operations attributable to AT&T

0.13	-	-
------	---	---

Diluted earnings (loss) per share attributable to AT&T

\$ 3.35	\$ 2.05	\$ (0.44)
---------	---------	------------

At December 31, 2010, 2009 and 2008, we had issued and outstanding options to purchase approximately 130 million, 178 million and 204 million shares of AT&T common stock. The exercise prices of 100 million, 163 million and 144 million shares in 2010, 2009 and 2008 were above the average market price of AT&T stock. Accordingly, we did not include these amounts in determining the dilutive potential common shares for the respective periods. At December 31, 2010, the exercise prices of 25 million vested stock options were below market price.

NOTE 4. SEGMENT INFORMATION

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. We analyze our various operating segments

based on segment income before income taxes. Actuarial gains and losses from pension and other postretirement benefits, interest expense and other income (expense) ? net, are managed only on a total company basis and are, accordingly, reflected only in consolidated results. Therefore, these items are not included in the calculation of each segment?s percentage of our consolidated results. The customers and long-lived assets of our reportable segments are predominantly in the United States. We have four reportable segments: (1) Wireless, (2) Wireline, (3) Advertising Solutions and (4) Other.

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Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The Wireless segment uses our nationwide network to provide consumer and business customers with wireless voice and advanced data communications services.

The Wireline segment uses our regional, national and global network to provide consumer and business customers with landline voice and data communications services, AT&T U-verseSM TV, high-speed broadband and voice services (U-verse) and managed networking to business customers. Additionally, we receive commissions on sales of satellite television services offered through our agency arrangements.

The Advertising Solutions segment includes our directory operations, which publish Yellow and White Pages directories and sell directory advertising and Internet-based advertising and local search.

The Other segment includes results from customer information services, our portion of the results from our international equity investments and all corporate and other operations. Also included in the Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated, including interest cost and expected return on pension and postretirement benefits. In May 2010, we announced the sale of Sterling. The Other segment results for all periods shown have been restated to exclude the results of Sterling, which are now reflected in discontinued operations (see Note 2).

In January 2011, we announced a change in our method of recognizing actuarial gains and losses for pension and other postretirement benefits as well as the attribution of those benefit costs to our segments (see Note 1). Historically, the total benefit costs were attributed to each segment. As part of

the benefit accounting change, the service cost and the amortization of prior service costs, which represent the benefits earned by active employees during the period, will continue to be attributed to the segment in which the employee is employed, while interest cost and expected return on assets will now be recorded in the Other segment as those financing activities are managed on a corporate level. Actuarial gains and losses resulting from the remeasurement of our pension and postretirement benefit plans, which generally only occurs in the fourth quarter, will be reflected in AT&T's consolidated results only. We have adjusted prior-period segment information to conform to the current period's presentation.

Historically, the intersegment activity had been reported as revenue in the billing segment and offsetting operating expense in the purchasing segment. Upon consolidation, the intersegment revenue and expense were eliminated with the consolidated results, reflecting the cash operating and depreciation expense of providing the intersegment service. As part of AT&T's ongoing initiatives to manage its business from an external customer perspective, we no longer report intersegment revenue and instead report the cash operating and depreciation expense related to intersegment activity in the purchasing segment, which provided services to the external customer. While this change did not affect AT&T's total consolidated results, the impact to each operating segment varied. In particular, the Wireless segment, as a purchaser of network, IT and other services from the Wireline segment, experienced a reduction in cash operating expense partially offset by increased depreciation expense, with the net result being increased operating margins. This change was effective with the reporting of operating results for the quarter ended March 31, 2010. We have applied this change retrospectively, adjusting prior-period segment information.

In the following tables, we show how our segment results are reconciled to our consolidated results reported. The Wireless, Wireline, Advertising Solutions and Other columns represent the segment results of each such operating segment. The Consolidations column adds in those line items that we manage on a consolidated basis only: actuarial gains and losses from pension and other postretirement benefits, interest expense and other income (expense) ? net. In the Segment assets line item, we have eliminated the value of our investments in our fully consolidated subsidiaries and the intercompany financing assets as these have no impact to the segments' operations.

Segment results, including a reconciliation to AT&T consolidated results, for 2010, 2009 and 2008 are as follows:

At December 31, 2010 or for the year ended

Advertising

Consolidated

Wireless

Wireline

Solutions

Other

Consolidations

Results

Total segment operating revenues

\$ 58,500	\$ 61,202	\$ 3,935	\$ 643	\$ -	\$ 124,280
-----------	-----------	----------	--------	------	------------

Operations and support expenses

36,746	41,008	2,583	2,470	2,521	85,328
--------	--------	-------	-------	-------	--------

Depreciation and amortization expenses

6,497	12,371	497	14	-	19,379
-------	--------	-----	----	---	--------

Total segment operating expenses

43,243	53,379	3,080	2,484	2,521	104,707
--------	--------	-------	-------	-------	---------

Segment operating income (loss)

15,257	7,823	855	(1,841)	(2,521)	19,573
--------	-------	-----	----------	----------	--------

Interest expense

-	-	-	-	2,994	2,994
---	---	---	---	-------	-------

Equity in net income of affiliates

9	11	-	742	-	762
---	----	---	-----	---	-----

Other income (expense) ? net

-	-	-	-	897	897
---	---	---	---	-----	-----

Segment income (loss) before income taxes

\$ 15,266	\$ 7,834	\$ 855	\$ (1,099)	\$ (4,618)	\$ 18,238
-----------	----------	--------	-------------	-------------	-----------

Segment assets

\$ 122,011	\$ 149,230	\$ 8,736	\$ 9,067	\$ (20,556)	\$ 268,488
Investments in equity method affiliates					
14	-	-	4,501	-	4,515
Expenditures for additions to long-lived assets					
9,171	11,071	29	31	-	20,302

At December 31, 2009 or for the year ended

Advertising

Consolidated

Wireless

Wireline

Solutions

Other

Consolidations

Results

Total segment operating revenues

\$ 53,504	\$ 63,514	\$ 4,724	\$ 771	\$ -	\$ 122,513
-----------	-----------	----------	--------	------	------------

Operations and support expenses

33,631	42,352	2,743	3,057	215	81,998
--------	--------	-------	-------	-----	--------

Depreciation and amortization expenses

6,043	12,743	650	79	-	19,515
-------	--------	-----	----	---	--------

Total segment operating expenses

39,674	55,095	3,393	3,136	215	101,513
--------	--------	-------	-------	-----	---------

Segment operating income (loss)

13,830	8,419	1,331	(2,365)	(215)	21,000
--------	-------	-------	----------	--------	--------

Interest expense

-	-	-	-	3,368	3,368
---	---	---	---	-------	-------

Equity in net income of affiliates

9	17	-	708	-	734
---	----	---	-----	---	-----

Other income (expense) ? net

-	-	-	-	152	152	
Segment income (loss) before income taxes						
\$ 13,839	\$ 8,436	\$ 1,331	\$ (1,657)	\$ (3,431)	\$ 18,518	
Segment assets						
\$ 116,720	\$ 156,130	\$ 9,654	\$ 8,908	\$ (23,100)	\$ 268,312	
Investments in equity method affiliates						
4	-	-	2,917	-	2,921	
Expenditures for additions to long-lived assets						
6,066	11,200	22	6	-	17,294	

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Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

For the year ended December 31, 2008

Advertising

Consolidated

Wireless

Wireline

Solutions

Other

Consolidations

Results

Total segment operating revenues

\$ 49,174	\$ 67,890	\$ 5,416	\$ 963	\$ -	\$ 123,443
-----------	-----------	----------	--------	------	------------

Operations and support expenses

31,530	44,817	2,900	1,063	25,150	105,460
Depreciation and amortization expenses					
6,025	12,786	789	73	-	19,673
Total segment operating expenses					
37,555	57,603	3,689	1,136	25,150	125,133
Segment operating income (loss)					
11,619	10,287	1,727	(173)	(25,150)	(1,690)
Interest expense					
-	-	-	-	3,369	3,369
Equity in net income of affiliates					
6	19	-	794	-	819
Other income (expense) ? net					
-	-	-	-	(332)	(332)
Segment income (loss) before income taxes					
\$ 11,625	\$ 10,306	\$ 1,727	\$ 621	\$ (28,851)	\$ (4,572)

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Notes to Consolidated Financial Statements (continued)
Dollars in millions except per share amounts

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows at December 31:

Lives (years)

2010

2009

Land

- \$ 1,694 \$ 1,724

Buildings

35-45	25,979	24,238
Central office equipment ¹		
3-10	79,607	78,314
Cable, wiring and conduit		
10-50	75,732	73,191
Other equipment ¹		
5-15	46,622	39,723
Software		
3-5	9,219	8,812
Under construction		
-	4,980	3,159
	243,833	229,161
Accumulated depreciation and amortization		
	140,637	129,642
Property, plant and equipment ? net		
	\$ 103,196	\$ 99,519

¹ Includes certain network software.

Our depreciation expense was \$16,402 in 2010, \$15,849 in 2009 and \$15,191 in 2008.

Certain facilities and equipment used in operations are leased under operating or capital leases. Rental expenses under operating leases were \$3,060 for 2010, \$2,889 for 2009 and \$2,733 for 2008. At December 31, 2010, the future minimum rental payments under noncancelable operating leases for the years 2011 through 2015 were \$2,590, \$2,454, \$2,257, \$2,134 and \$2,022, with \$13,347 due thereafter. Certain real estate operating leases contain renewal options that may be exercised. Capital leases are not significant.

American Tower Corp. Agreement

In August 2000, we reached an agreement with American Tower Corp. (American Tower) under which we granted American Tower the exclusive rights to lease space on a number of our communications towers. In exchange, we received a combination of cash and equity instruments as complete prepayment of rent with the closing of each leasing agreement. The value of the prepayments was recorded as deferred revenue and recognized in income as revenue over the life of the leases. The balance of deferred revenue was \$480 in 2010, \$509 in 2009 and \$539 in 2008.

NOTE 6. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amounts of goodwill, by segment (which is the same as the reporting unit for

Wireless, Wireline and Advertising Solutions), for the years ended December 31, 2010 and 2009, were as follows:

Wireless

Wireline

Advertising Solutions

Other

Total

Balance as of January 1, 2009

\$ 33,851	\$ 31,381	\$ 5,694	\$ 426	\$ 71,352
-----------	-----------	----------	--------	-----------

Goodwill acquired

1,276	344	36	-	1,656
-------	-----	----	---	-------

Other

(90)	(117)	1	(20)	(226)
-------	--------	---	-------	--------

Balance as of December 31, 2009

35,037	31,608	5,731	406	72,782
--------	--------	-------	-----	--------

Goodwill acquired

937	-	-	43	980
-----	---	---	----	-----

Other

(219)	62	-	(4)	(161)
--------	----	---	------	--------

Balance as of December 31, 2010

\$ 35,755	\$ 31,670	\$ 5,731	\$ 445	\$ 73,601
-----------	-----------	----------	--------	-----------

The reclassification of Sterling as a discontinued operation impacted goodwill by \$477 and other intangible assets balances by \$195 at December 31, 2009 and \$254 at January 1, 2009. Goodwill acquired in 2010 relates primarily to the acquisition of certain wireless properties from Verizon Wireless and in 2009 relates to certain wireless and wireline properties acquired from Centennial. Changes to goodwill during 2010 include adjustments totaling \$(219) related to wireless business combinations and \$62 due primarily to adjustments relating to a wireline business combination. Changes to goodwill during 2009 include adjustments totaling \$90 related to wireless liabilities in connection with a business combination and disposition of a wireline entity for \$117 (see Note 2).

Notes to Consolidated Financial Statements (continued)
Dollars in millions except per share amounts

Our other intangible assets are summarized as follows:

December 31, 2010

December 31, 2009

Other Intangible Assets

Gross Carrying Amount

Accumulated Amortization

Gross Carrying Amount

Accumulated Amortization

Amortized intangible assets:

Customer lists and relationships:

AT&T Mobility LLC

\$ 6,987	\$ 5,240	\$ 7,729	\$ 5,023
----------	----------	----------	----------

BellSouth

9,215	6,807	9,215	5,597
-------	-------	-------	-------

AT&T Corp.

3,134	2,647	3,134	2,377
-------	-------	-------	-------

Other

350	284	524	212
-----	-----	-----	-----

Subtotal

19,686	14,978	20,602	13,209
--------	--------	--------	--------

Other

525	239	778	519
Total			
\$ 20,211	\$ 15,217	\$ 21,380	\$ 13,728

Indefinite-life intangible assets not subject to amortization:

Licenses

\$ 50,372	\$ 48,741
Trade name	
5,154	5,235
Total	
\$ 55,526	\$ 53,976

Amortized intangible assets are definite-life assets, and as such, we record amortization expense based on a method that most appropriately reflects our expected cash flows from these assets. Amortization expense for definite-life intangible assets was \$2,977 for the year ended December 31, 2010, \$3,666 for the year ended December 31, 2009, and \$4,482 for the year ended December 31, 2008. Amortization expense is estimated to be \$2,007 in 2011, \$1,325 in 2012, \$739 in 2013, \$346 in 2014 and \$214 in 2015. In 2009, Mobility wrote off \$2,963 in fully amortized intangible assets (primarily customer lists). We review other long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable over the remaining life of the asset or asset group.

Licenses include wireless FCC licenses of \$50,356 at December 31, 2010, and \$48,650 at December 31, 2009, that provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communications services. In 2010, we recorded an \$85 impairment for a trade name.

NOTE 7. EQUITY METHOD INVESTMENTS

Investments in partnerships, joint ventures and less-than-majority-owned subsidiaries in which we have significant influence are accounted for under the equity method.

Our investments in equity affiliates include primarily international investments. As of December 31, 2010, our investments in equity affiliates included an 8.4% interest in Telefonos de México, S.A. de C.V. (Telmex), Mexico's national telecommunications company, and a 9.0% interest in América Móvil, S.A. de C.V. (América Móvil), primarily a wireless provider in Mexico with telecommunications investments in the United States and Latin America. We are a member of a consortium that holds all of the class AA shares of Telmex stock, representing voting control of the company. Another member of the consortium, Carso Global Telecom, S.A.B. de C.V. (CGT), has the right to appoint a majority of

the directors of Telmex. We also are a member of a consortium that holds all of the class AA shares of América Móvil stock, representing voting control of the company. Another member of the consortium has the right to appoint a majority of the directors of América Móvil.

América Móvil Transactions On June 11, 2010, as part of a tender offer from América Móvil, we exchanged all our shares in Telmex Internacional, S.A.B. de C.V. (TI) for América Móvil L shares at the offered exchange rate of 0.373, which resulted in a pretax gain of \$658. The exchange was accounted for at fair value. In addition, we paid \$202 to purchase additional shares of América Móvil L shares to maintain our ownership percentage at a pretransaction level.

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Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The following table is a reconciliation of our investments in equity affiliates as presented on our consolidated balance sheets:

2010

2009

Beginning of year

\$ 2,921	\$ 2,332
----------	----------

Additional investments

220	44
-----	----

Equity in net income of affiliates

762	734
-----	-----

Dividends received

(159)	(315)
--------	--------

Dispositions

(204)	-
--------	---

Currency translation adjustments

203	125
-----	-----

Telmex Internacional exchange

658	-
Other adjustments	
114	1
End of year	
\$ 4,515	\$ 2,921

Undistributed earnings from equity affiliates were \$5,137 and \$4,534 at December 31, 2010 and 2009. The currency translation adjustment for 2010 and 2009 reflects the effect of exchange rate fluctuations on our investments in Telmex, TI and América Móvil.

The fair value of our investment in Telmex, based on the equivalent value of Telmex L shares at December 31, 2010, was \$1,231. The fair value of our investment in América Móvil, based on the equivalent value of América Móvil L shares at December 31, 2010, was \$10,383.

NOTE 8. DEBT

Long-term debt of AT&T and its subsidiaries, including interest rates and maturities, is summarized as follows at December 31:

2010

2009

Notes and debentures

Interest Rates

Maturities¹

0.35% ? 2.99%	2010 ? 2015	\$ 2,250	\$ 3,500
3.00% ? 4.99%	2010 ? 2014	5,880	5,853
5.00% ? 6.99%	2010 ? 2095	43,506	41,331
7.00% ? 9.10%	2010 ? 2097	11,986	19,069
Other			
14	136		
Fair value of interest rate swaps recorded in debt			
435	310		

64,071	70,199
Unamortized premium, net of discount	
185	1,612
Total notes and debentures	
64,256	71,811
Capitalized leases	
259	237
Total long-term debt, including current maturities	
64,515	72,048
Current maturities of long-term debt	
(5,544)	(7,328)
Total long-term debt	
\$ 58,971	\$ 64,720

1 Maturities assume putable debt is redeemed by the holders at the next opportunity.

Current maturities of long-term debt include debt that may be put back to us by the holders in 2011. We have \$1,000 of annual put reset securities issued by BellSouth that may be put each April until maturity in 2021. If the holders do not require us to repurchase the securities, the interest rate will be reset based on current market conditions. Likewise, we have an accreting zero-coupon note that may be redeemed each May, excluding May 2011, until maturity in 2022. If the zero-coupon note (issued for principal of \$500 in 2007) is held to maturity, the redemption amount will be \$1,030.

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Notes to Consolidated Financial Statements (continued)
Dollars in millions except per share amounts

Debt maturing within one year consisted of the following at December 31:

2010

2009

Current maturities of long-term debt
\$ 5,544 \$ 7,328

Commercial paper

1,625 -

Bank borrowings¹

27 33

Total

\$ 7,196 \$ 7,361

¹ Outstanding balance of short-term credit facility of a foreign subsidiary.

During 2010, we received net proceeds of \$2,235 from the issuance of \$2,250 of 2.50% global notes due in 2015. Debt proceeds were used for general corporate purposes. We also received net proceeds of \$1,620 from the net issuance of commercial paper and other short-term bank borrowings.

During 2010, debt repayments totaled \$9,294 and consisted of:

.

\$5,668 in repayments of long-term debt with a weighted-average interest rate of 2.86%.

.

\$3,000 for the early redemption of the New Cingular Wireless Services, Inc. 7.875% notes originally due on March 1, 2011.

.

\$594 related to the private exchange we completed on September 2, 2010 whereby holders exchanged \$1,362 of New Cingular Wireless Services, Inc. 8.75% senior notes due 2031 and \$1,537 of AT&T Corp. (ATTC) 8.00% senior notes due 2031 for \$3,500 of new 5.35% AT&T Inc. global notes due 2040 plus a cash payment.

.

\$32 in repayments of capitalized leases.

As of December 31, 2010 and 2009, we were in compliance with all covenants and conditions of instruments governing our debt. Substantially all of our outstanding long-term debt is unsecured. Maturities of outstanding long-term notes and debentures, as of December 31, 2010, and the corresponding weighted-average interest rate scheduled for repayment are as follows:

2011

2012

2013

2014

2015

Thereafter

Debt repayments¹

\$ 5,535	\$ 5,454	\$ 5,823	\$ 4,788	\$ 4,514	\$ 38,042
----------	----------	----------	----------	----------	-----------

Weighted-average interest rate

6.2 %	6.4 %	5.6 %	5.1 %	4.3 %	6.4 %
-------	-------	-------	-------	-------	-------

¹ Debt repayments assume putable debt is redeemed by the holders at the next opportunity.

Credit Facilities In December 2010, we replaced our five-year, \$9,465 revolving credit facility with two new revolving credit facilities with a syndicate of banks ? a four-year, \$5,000 agreement and a \$3,000, 364-day agreement. In the event advances are made under either agreement, those advances would be used for general corporate purposes, which could include repayment of maturing commercial paper. Advances are not conditioned on the absence of a material adverse change. All advances must be repaid no later than the date on which lenders are no longer obligated to make any advances under each agreement. Under each agreement, we can terminate, in whole or in part, amounts committed by the lenders in excess of any outstanding advances; however, we cannot reinstate any such terminated commitments. At December 31, 2010, we had no advances outstanding under either agreement and were in compliance with all covenants under each agreement.

The Four-Year Agreement

We can request the lenders to further increase their commitments (i.e., raise the available credit) up to an additional \$2,000 provided no event of default has occurred. The obligations of the lenders to provide advances will terminate on December 20, 2014, unless prior to that date either: (i) we reduce to \$0 the commitments of the lenders, or (ii) certain events of default occur. We and lenders representing more than 50% of the facility amount may agree to extend their commitments for an additional one year beyond the December 20, 2014 termination date (with a potential one-year further renewal), under certain circumstances.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Advances would bear interest, at our option, either:

.

at an annual rate equal to (1) the highest of (a) the base (or prime) rate of a designated bank, (b) 0.50% per annum above the Federal funds rate, and (c) the British Bankers Association Interest Settlement Rate applicable to Dollars for a period of one month plus 1.00%, plus (2) a rate based on AT&T's credit default swap mid-rate spread and subject to a floor or cap as set forth in the Agreement (Applicable Margin) minus 1.00% provided such total exceeds zero; or

.

at a rate equal to: (i) the London InterBank Offered Rate (LIBOR) (adjusted upwards to reflect any bank reserve costs) for a period of one, two, three or six months, as applicable, plus (ii) the Applicable Margin.

If we pledge assets or otherwise have liens on our properties, then advances will be ratably secured, subject to specified exceptions. We also must maintain a debt-to-EBITDA (earnings before interest, income taxes, depreciation and amortization, and other modifications described in the agreement) ratio of not more than three-to-one, as of the last day of each fiscal quarter, for the four quarters then ended.

Defaults under the agreement, which would permit the lenders to accelerate required repayment and which would increase the Applicable Margin by 2.00% per annum, include:

.

We fail to pay principal or interest, or other amounts under the agreement beyond any grace period,

.

We fail to pay when due other debt of \$400 or more that results in acceleration of that debt (commonly referred to as "cross-acceleration") or a creditor commences enforcement proceedings within a specified period after a money judgment of \$400 or more has become final,

.

A person acquires beneficial ownership of more than 50% of AT&T common shares or more than a majority of AT&T's directors changes in any 24-month period other than as elected by the remaining

directors (commonly referred to as a "change in control"),

.

Material breaches of representations or warranties in the agreement,

.

We fail to comply with the negative pledge or debt-to-EBITDA ratio covenants described above,

.

We fail to comply with other covenants under the Agreement for a specified period after notice,

.

We fail to make certain minimum funding payments under Employee Retirement Income Security Act of 1941, as amended (ERISA), and

.

Our bankruptcy or insolvency.

364-day Agreement

The obligations of the lenders to provide advances will terminate on December 19, 2011, unless prior to that date either: (i) we reduce to \$0 the commitments of the lenders, or (ii) certain events of default occur. We and lenders representing more than 50% of the facility amount may agree to extend their commitments for an additional 364-day period beyond the December 19, 2011 termination date, under certain circumstances. We also can convert all or part of outstanding advances under the 364-day Agreement into term loan(s) maturing no later than the first anniversary of the termination date, under certain circumstances.

Advances would bear interest, at our option, either:

.

at a variable annual rate equal to (1) the highest of (a) the base (or prime) rate of a designated bank, (b) 0.50% per annum above the Federal funds rate, and (c) the British Bankers Association Interest Settlement Rate applicable to Dollars for a period of one month plus 1.00%, plus (2) a rate based on AT&T's credit default swap mid-rate spread and subject to a floor or cap as set forth in such Agreement (Applicable Margin) minus 1.00% provided such total exceeds zero; or

.

at a rate equal to: (i) LIBOR (adjusted upwards to reflect any bank reserve costs) for a period of one, two, three or six months, as applicable, plus (ii) the Applicable Margin.

The 364-day Agreement contains a negative pledge covenant that is identical to the negative pledge described above. In the event we elect to convert any outstanding advances to term loan(s), the debt-to-EBITDA financial ratio covenant described above also would apply while such term loan(s) were outstanding. The events of default described above also apply to the 364-day Agreement.

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Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

NOTE 9. FAIR VALUE MEASUREMENTS AND DISCLOSURE

The Fair Value Measurement and Disclosure framework provides a three-tiered fair value hierarchy that gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that AT&T has the ability to access.

Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted market prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

- Fair value is often based on internally developed models in which there are few, if any, external observations.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable value or reflective of future fair values. AT&T believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at December 31, 2010, and December 31, 2009.

Long-Term Debt and Other Financial Instruments

The carrying amounts and estimated fair values of our long-term debt, including current maturities and other financial instruments, are summarized as follows:

December 31, 2010

December 31, 2009

Carrying

Fair

Carrying

Fair

Amount

Value

Amount

Value

Notes and debentures

\$ 64,256	\$ 69,313	\$ 71,811	\$ 75,212
-----------	-----------	-----------	-----------

Commercial paper

1,625	1,625	-	-
-------	-------	---	---

Bank borrowings

27	27	33	33
----	----	----	----

Investment securities

2,183	2,183	1,885	1,885
-------	-------	-------	-------

The fair values of our notes and debentures were estimated based on quoted market prices, where available. The carrying value of debt with an original maturity of less than one year approximates market value.

Investment Securities

Our investment securities consist of primarily available-for-sale instruments, which include equities, fixed income bonds and other securities. Substantially all the fair values of our available-for-sale securities were estimated based on quoted market prices. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Realized gains and losses on these securities are included in other income (expense) ? net in the consolidated statements of income using the specific identification method. Unrealized gains and losses, net of tax, on available-for-sale securities are recorded in accumulated OCI. Unrealized losses that are considered other-than-temporary are recorded in other income (expense) ? net, with the corresponding reduction to the carrying basis of the investment. Fixed income investments have maturities of \$228 in 2011, \$107 in 2012 and 2013, \$52 in 2014 and 2015, and \$252 for years thereafter.

Our short-term investments, other short- and long-term held-to-maturity investments (including money market securities) and customer deposits are recorded at amortized cost, and the respective carrying amounts approximate fair values.

Our investment securities maturing within one year are recorded in "Other current assets," and instruments with maturities of more than one year are recorded in "Other Assets" on the consolidated balance sheets.

Following is the fair value leveling for available-for-sale securities and derivatives as of December 31, 2010, and December 31, 2009.

December 31, 2010

Level 1

Level 2

Level 3

Total

Available-for-Sale Securities

Domestic equities

\$ 976	\$ -	\$ -	\$ 976
--------	------	------	--------

International equities

513	-	-	513
-----	---	---	-----

Fixed income bonds

-	639	-	639
---	-----	---	-----

Asset Derivatives

Interest rate swaps

-	537	-	537
---	-----	---	-----

Cross-currency swaps

-	327	-	327
---	-----	---	-----

Interest rate locks

-	11	-	11
---	----	---	----

Foreign exchange contracts

- 6 - 6

Liability Derivatives

Cross-currency swaps

- (675) - (675)

Interest rate locks

- (187) - (187)

Foreign exchange contracts

- (2) - (2)

December 31, 2009

Level 1

Level 2

Level 3

Total

Available-for-Sale Securities

Domestic equities

\$ 1,047 \$ - \$ - \$ 1,047

International equities

412 - - 412

Fixed income bonds

- 341 - 341

Asset Derivatives

Interest rate swaps

- 399 - 399

Cross-currency swaps

- 635 - 635

Interest rate locks

- 150 - 150

Foreign exchange contracts

- 2 - 2

Liability Derivatives

Cross-currency swaps

- (390) - (390)

Interest rate locks

- (6) - (6)

Foreign exchange contracts

- (7) - (7)

Derivative Financial Instruments

We employ derivatives to manage certain market risks, primarily interest rate risk and foreign currency exchange risk. This includes the use of interest rate swaps, interest rate locks, foreign exchange forward contracts and combined interest rate foreign exchange contracts (cross-currency swaps). We do not use derivatives for trading or speculative purposes. We record derivatives on our consolidated balance sheets at fair value, which is derived from observable market data, including yield curves and foreign exchange rates (all of our derivatives are Level 2). Cash flows associated with derivative instruments are presented in the same category on the consolidated statements of cash flows as the item being hedged.

The majority of our derivatives are designated either as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge).

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Fair Value Hedging We designate our fixed-to-floating interest rate swaps as fair value hedges. The purpose of these swaps is to manage interest rate risk by managing our mix of fixed-rate and floating-rate debt. These swaps involve the receipt of fixed-rate amounts for floating interest rate payments over the life of the swaps without exchange of the underlying principal amount. Accrued and realized gains or losses from interest rate swaps impact interest expense on the consolidated statements of

income. Unrealized gains on interest rate swaps are recorded at fair market value as assets, and unrealized losses on interest rate swaps are recorded at fair market value as liabilities. Changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed-rate notes payable they hedge due to changes in the designated benchmark interest rate and are recognized in interest expense, though they net to zero. Gains or losses realized upon early termination of our fair value hedges would be recognized in interest expense.

Cash Flow Hedging Unrealized gains on derivatives designated as cash flow hedges are recorded at fair value as assets, and unrealized losses on derivatives designated as cash flow hedges are recorded at fair value as liabilities, both for the period they are outstanding. For derivative instruments designated as cash flow hedges, the effective portion is reported as a component of accumulated OCI until reclassified into interest expense in the same period the hedged transaction affects earnings. The gain or loss on the ineffective portion is recognized in other income (expense) - net in each period.

We designate our cross-currency swaps as cash flow hedges. We have entered into multiple cross-currency swaps to hedge our exposure to variability in expected future cash flows that are attributable to foreign currency risk generated from the issuance of our Euro and British pound sterling denominated debt. These agreements include initial and final exchanges of principal from fixed foreign denominations to fixed U.S. denominated amounts, to be exchanged at a specified rate, which was determined by the market spot rate upon issuance. They also include an interest rate swap of a fixed foreign-denominated rate to a fixed U.S. denominated interest rate. We evaluate the effectiveness of our cross-currency swaps each quarter. In the years ended December 31, 2010, and December 31, 2009, no ineffectiveness was measured.

Periodically, we enter into and designate interest rate locks to partially hedge the risk of changes in interest payments attributable to increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We designate our interest rate locks as cash flow hedges. Gains and losses when we settle our interest rate locks are amortized into income over the life of the related debt, except where a material amount is deemed to be ineffective, which would be immediately reclassified to income. In the second quarter of 2010, we settled \$200 of notional rate locks without utilizing them in a debt issuance. The total impact to interest expense was \$(5). We are confident our remaining rate locks will be utilized given our probable refinancing needs over the next two years. No other ineffectiveness was measured in the year ended December 31, 2010. Over the next 12 months, we expect to reclassify \$15 from accumulated OCI to interest expense due to the amortization of net losses on historical interest rate locks. Our unutilized interest rate locks carry mandatory early terminations, the latest occurring in April 2012.

We hedge a large portion of the exchange risk involved in anticipation of highly probable foreign

currency-denominated transactions. In anticipation of these transactions, we often enter into foreign exchange contracts to provide currency at a fixed rate. Some of these instruments are designated as cash flow hedges while others remain non-designated, largely based on size and duration. Gains and losses at the time we settle or take delivery on our designated foreign exchange contracts are amortized into income over the next few months as the hedged funds are spent by our foreign subsidiaries, except where a material amount is deemed to be ineffective, which would be immediately reclassified to income. In the year ended December 31, 2010, no ineffectiveness was measured. No transactions were designated in the year ended December 31, 2009.

Collateral and Credit-Risk Contingency We have entered into agreements with most of our derivative counterparties, establishing collateral thresholds based on respective credit ratings and netting agreements. Collateral is exchanged on a weekly basis. At December 31, 2010, we had posted collateral of \$82 (a deposit asset) and held collateral of \$26 (a receipt liability). Under the agreements, if our credit rating had been downgraded one rating level by Moody's and Fitch before the final collateral exchange in December, we would have been required to post additional collateral of \$115. At December 31, 2009, we held \$222 of counterparty collateral. We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable), against the fair value of the derivative instruments.

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Notes to Consolidated Financial Statements (continued)
Dollars in millions except per share amounts

Following is the notional amount of our outstanding derivative positions at December 31:

2010

2009

Interest rate swaps	
\$ 11,050	\$ 9,000
Cross-currency swaps	
7,502	7,502
Interest rate locks	

	3,400	3,600
Foreign exchange contracts		
	221	293
Total		
	\$ 22,173	\$ 20,395

Following are our derivative instruments and their related hedged items affecting our financial position and performance:

Fair Value of Derivatives on the Consolidated Balance Sheets

Derivatives designated as hedging instruments are reflected as other assets, other liabilities and, for a portion of interest rate swaps, accounts receivable at December 31.

Asset Derivatives

2010

2009

Interest rate swaps

\$ 537 \$ 399

Cross-currency swaps

327 635

Interest rate locks

11 150

Foreign exchange contracts

6 2

Total

\$ 881 \$ 1,186

Liability Derivatives

2010

2009

Cross-currency swaps

\$ (675) \$ (390)

Interest rate locks

(187) (6)

Foreign exchange contracts

(2) (7)

Total

\$ (864) \$ (403)

Effect of Derivatives in the Consolidated Statement of Income

Fair Value Hedging Relationships

For the year ended December 31,

2010

2009

Interest rate swaps (Interest expense):

Gain (Loss) on interest rate swaps

\$ 125 \$ (216)

Gain (Loss) on long-term debt

(125) 216

In addition, the net swap settlements that accrued and settled in the year ended December 31 were also reported as reductions of interest expense.

Cash Flow Hedging Relationships

For the year ended December 31,

2010

2009

Cross-currency swaps:

Gain (Loss) recognized in accumulated Other Comprehensive Income

\$ (201) \$ 738

Other income (expense) ? net reclassified from accumulated Other Comprehensive Income into income

- -

Interest rate locks:

Gain (Loss) recognized in accumulated Other Comprehensive Income

(320) 203

Interest expense reclassified from accumulated Other Comprehensive Income into income

(19) (23)

Foreign exchange contracts:

Gain (Loss) recognized in accumulated Other Comprehensive Income

5 (2)

Other income (expense) ? net reclassified from accumulated Other Comprehensive Income into income

- -

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Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The balance of the unrealized derivative gain (loss) in accumulated OCI was \$(180) at December 31, 2010, and \$142 at December 31, 2009.

NOTE 10. INCOME TAXES

Significant components of our deferred tax liabilities (assets) are as follows at December 31:

2010

2009

Depreciation and amortization

\$ 34,172 \$ 37,341

Intangibles (nonamortizable)

1,958 1,990

Employee benefits

(13,612) (14,375)

Net operating loss and other carryforwards

(1,552) (1,820)

Other ? net

(1,015) (1,983)

Subtotal

19,951 21,153

Deferred tax assets valuation allowance

949 1,179

Net deferred tax liabilities

\$ 20,900 \$ 22,332

Net long-term deferred tax liabilities

\$ 22,070 \$ 23,579

Less: Net current deferred tax assets

(1,170) (1,247)

Net deferred tax liabilities

\$ 20,900 \$ 22,332

In March 2010, the President of the United States signed into law comprehensive healthcare reform legislation under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, which included a change in the tax treatment related to Medicare Part D subsidies. We recorded a \$995, or \$0.17 per diluted share, charge to income tax expense in our consolidated statement of income during the first quarter of 2010 and increased our deferred income taxes liability balance to reflect the impact of this change.

In September 2010, we reached a settlement with the Internal Revenue Service (IRS) on tax basis calculations related to a 2008 restructuring of our wireless operations. The IRS settlement resolves the uncertainty regarding the amount and timing of amortization deductions related to certain of our wireless assets. The allowed amortization deductions on these settlement-related assets and the related cash flow impacts are expected to be recognized over a 15-year period, which began in 2008. Pursuant to the settlement, we paid \$300 to the IRS during the fourth quarter of 2010 as a result of

the disallowance of a portion of the amortization deductions taken on our 2008 and 2009 income tax returns. We recorded an \$8,300, or \$1.40 per diluted share, reduction to income tax expense in our consolidated statement of income during the third quarter of 2010 and corresponding decreases of \$6,760 to our net noncurrent deferred income tax liabilities and \$1,540 to other net tax liabilities to reflect the tax benefits of the settlement. The IRS settlement resulted in a reduction to our unrecognized tax benefits (UTBs) for tax positions related to prior years of \$1,057, which also reduced the total amount of UTBs that, if recognized, would impact the effective tax rate.

At December 31, 2010, we had combined net operating and capital loss carryforwards (tax effected) for federal income tax purposes of \$181 and for state and foreign income tax purposes of \$1,052, expiring through 2029. Additionally, we had federal credit carryforwards of \$73 and state credit carryforwards of \$246, expiring primarily through 2027.

We recognize a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion, or all, of a deferred tax asset will not be realized. Our valuation allowances at December 31, 2010 and 2009, relate primarily to state net operating loss carryforwards.

We recognize the financial statement effects of a tax return position when it is more likely than not, based on the technical merits, that the position will ultimately be sustained. For tax positions that meet this recognition threshold, we apply our judgment, taking into account applicable tax laws and our experience in managing tax audits and relevant GAAP, to determine the amount of tax benefits to recognize in our financial statements. For each position, the difference between the benefit realized on our tax return and the benefit reflected in our financial statements is recorded on our consolidated balance sheets as an UTB. We update our UTBs at each financial statement date to reflect the impacts of audit settlements and other resolution of audit issues, expiration of statutes of limitation, developments in tax law and ongoing discussions with taxing authorities. A reconciliation of the change in our UTB balance from January 1 to December 31 for 2010 and 2009 is as follows:

2010

2009

Balance at beginning of year

\$ 5,969 \$ 6,176

Increases for tax positions related to the current year

324 980

Increases for tax positions related to prior years

562 876

Decreases for tax positions related to prior years

(1,989) (1,982)

Lapse of statute of limitations

(44) -

Settlements

(462) (81)

Balance at end of year

4,360 5,969

Accrued interest and penalties

1,329 1,537

Gross unrecognized income tax benefits

5,689 7,506

Less: Deferred federal and state income tax benefits

(817) (892)

Less: Tax attributable to timing items included above

(2,073) (2,540)

Total UTB that, if recognized, would impact the effective income tax rate as of the end of the year

\$ 2,799 \$ 4,074

During 2010 and 2009, we made net deposits totaling \$206 and \$1,151 to several taxing jurisdictions. These deposits are not included in the reconciliation above but reduce our UTBs balance. Net of these deposits and deposits made in 2008 of \$191 and a \$1,000 deposit made in 2007, our UTBs balance at December 31, 2010, was \$3,141, which was included in "Other noncurrent liabilities" on our consolidated balance sheets. Our UTBs balance at December 31, 2009, was \$5,164, of which \$4,865 was included in "Other noncurrent liabilities" and \$299 was included in "Accrued taxes" on our consolidated balance sheets.

We record interest and penalties related to federal, state and foreign UTBs in income tax expense.

Accrued interest and penalties included in UTBs were \$1,329 as of December 31, 2010, and \$1,537 as of December 31, 2009. Interest and penalties included in our consolidated statements of income were \$(194) for 2010, \$(216) for 2009, and \$152 for 2008.

We file income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. Our income tax returns are regularly audited by the IRS as well as by state, local and foreign taxing authorities.

The IRS has completed field examinations of our tax returns through 2005, and all audit periods prior to 1998 are closed for federal purposes. We were unable to reach agreement with the IRS regarding treatment of Universal Service Fund receipts on our 1998 and 1999 tax returns and, as a result, we filed a refund suit in U.S. District Court (District Court). In July 2009, the District Court granted the Government's motion for summary judgment and entered final judgment for the Government. We appealed the final judgment to the U.S. Court of Appeals for the Fifth Circuit (Court of Appeals). In January 2011, the Court of Appeals affirmed the judgment of the District Court. We are considering whether to petition the U.S. Supreme Court for a writ of certiorari with regard to this tax refund matter. We are engaged with the IRS Appeals Division in resolving issues related to our 1999 - 2005 returns; we are unable to estimate the impact the resolution of these issues may have on our UTBs. The IRS began its examination of our 2006 - 2008 income tax returns in 2009.

The components of income tax (benefit) expense are as follows:

2010

2009

2008

Federal:

Current

\$ 307	\$ 2,849	\$ 1,158
Deferred - net		
(2,105)	2,149	(2,970)
(1,798)	4,998	(1,812)

State, local and foreign:

Current

141	1,193	(21)
Deferred ? net		
495	(100)	(377)
636	1,093	(398)
Total		
\$ (1,162)	\$ 6,091	\$ (2,210)

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Notes to Consolidated Financial Statements (continued)
Dollars in millions except per share amounts

A reconciliation of income tax expense (benefit) and the amount computed by applying the statutory federal income tax rate (35%) to income from continuing operations before income taxes is as follows:

2010

2009

2008

Taxes computed at federal statutory rate

\$ 6,383 \$ 6,481 \$ (1,600)

Increases (decreases) in income taxes resulting from:

State and local income taxes ? net of federal income tax benefit

441 554 (229)

Healthcare Reform Legislation

917 - -

IRS Settlement ? 2008 Wireless Restructuring

(8,300) - -

Other ? net

(603) (944) (381)

Total

\$ (1,162) \$ 6,091 \$ (2,210)

Effective Tax Rate

(6.4)% 32.9 % 48.3 %

NOTE 11. PENSION AND POSTRETIREMENT BENEFITS

Pension Benefits and Postretirement Benefits

Substantially all of our U.S. employees are covered by one of our noncontributory pension and death benefit plans. Many of our management employees participate in pension plans that have a traditional pension formula (i.e., a stated percentage of employees' adjusted career income) and a frozen cash balance or defined lump sum formula. In 2005, the management pension plan for those employees was amended to freeze benefit accruals previously earned under a cash balance formula. Each employee's existing cash balance continues to earn interest at a variable annual rate. After this change, those management employees, at retirement, may elect to receive the portion of their pension benefit derived under the cash balance or defined lump sum as a lump sum or an annuity. The remaining pension benefit, if any, will be paid as an annuity if its value exceeds a stated monthly amount. Management employees of former ATTC, BellSouth, AT&T Mobility LLC and new hires after 2006 participate in cash balance pension plans. Nonmanagement employees' pension benefits are generally calculated using one of two formulas: benefits are based on a flat dollar amount per year according to job classification or are calculated under a cash balance plan that is based on an initial cash balance amount and a negotiated annual pension band and interest credits. Most nonmanagement employees can elect to receive their pension benefits in either a lump sum payment or an annuity.

We also provide a variety of medical, dental and life insurance benefits to certain retired employees under various plans and accrue actuarially determined postretirement benefit costs as active employees earn these benefits.

In January 2011, we announced a change in our method of recognizing actuarial gains and losses for pension and other postretirement benefits for all benefit plans. Historically, we recognized the actuarial gains and losses as a component of Stockholders' Equity on our consolidated balance sheets on an annual basis and amortized them into our operating results over the average future service period of the active employees of these plans, to the extent such gains and losses were outside of a corridor. We have elected to immediately recognize actuarial gains and losses in our operating results, noting that it is generally preferable to accelerate the recognition of deferred gains and losses into income rather than to delay such recognition. This change will improve transparency in our operating results by more quickly recognizing the effects of economic and interest rate

conditions on plan obligations, investments and assumptions. Generally, these gains and losses are measured annually as of December 31 and accordingly will be recorded during the fourth quarter. Additionally, for purposes of calculating the expected return on plan assets, we will no longer use a permitted averaging technique for the market-related value of plan assets but instead will use actual fair value of plan assets. We have applied these changes retrospectively, adjusting all prior periods (see Note 1).

Obligations and Funded Status

For defined benefit pension plans, the benefit obligation is the "projected benefit obligation," the actuarial present value, as of our December 31 measurement date, of all benefits attributed by the pension benefit formula to employee service rendered to that date. The amount of benefit to be paid depends on a number of future events incorporated into the pension benefit formula, including estimates of the average life of employees/survivors and average years of service rendered. It is measured based on assumptions concerning future interest rates and future employee compensation levels.

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Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

For postretirement benefit plans, the benefit obligation is the "accumulated postretirement benefit obligation," the actuarial present value as of a date of all future benefits attributed under the terms of the postretirement benefit plan to employee service rendered to the valuation date.

The following table presents this reconciliation and shows the change in the projected benefit obligation for the years ended December 31:

Pension Benefits

Postretirement Benefits

2010

2009

2010

2009

Benefit obligation at beginning of year

\$ 50,850	\$ 50,822	\$ 36,225	\$ 37,531
-----------	-----------	-----------	-----------

Service cost - benefits earned during the period

1,075	1,070	348	334
-------	-------	-----	-----

Interest cost on projected benefit obligation

3,150	3,355	2,257	2,434
-------	-------	-------	-------

Amendments

2	(685)	(742)	(3,115)
---	--------	--------	----------

Actuarial loss

4,224	2,439	1,046	1,402
-------	-------	-------	-------

Special termination benefits

101	118	7	9
-----	-----	---	---

Benefits paid

(5,485)	(6,269)	(2,536)	(2,370)
----------	----------	----------	----------

Other

-	-	33	-
---	---	----	---

Benefit obligation at end of year

\$ 53,917	\$ 50,850	\$ 36,638	\$ 36,225
-----------	-----------	-----------	-----------

The following table presents the change in the value of plan assets for the years ended December 31 and the plans' funded status at December 31:

Pension Benefits

Postretirement
Benefits

2010

2009

2010

2009

Fair value of plan assets at beginning of year

\$ 46,873	\$ 46,828	\$ 11,513	\$ 10,175
-----------	-----------	-----------	-----------

Actual return on plan assets

6,230	6,312	1,472	1,991
-------	-------	-------	-------

Benefits paid¹

(5,485)	(6,269)	(244)	(823)
----------	----------	--------	--------

Contributions

-	2	-	195
---	---	---	-----

Other

3	-	6	(25)
---	---	---	-------

Fair value of plan assets at end of year

47,621	46,873	12,747	11,513
--------	--------	--------	--------

Unfunded status at end of year²

\$ (6,296)	\$ (3,977)	\$ (23,891)	\$ (24,712)
-------------	-------------	--------------	--------------

1 At our discretion, certain postretirement benefits are paid from AT&T cash accounts and do not reduce Voluntary Employee Beneficiary Association (VEBA) assets. Future benefit payments may be made from VEBA trusts and thus reduce those asset balances.

2 Funded status is not indicative of our ability to pay ongoing pension benefits or of our obligation to fund retirement trusts. Required pension funding is determined in accordance with ERISA regulations.

Amounts recognized on our consolidated balance sheets at December 31 are listed below:

Pension Benefits

Postretirement Benefits

2010

2009

2010

2009

Current portion of employee benefit obligation¹

\$ - \$ - \$ (2,394) \$ (2,021)

Employee benefit obligation²

(6,296) (3,977) (21,497) (22,691)

Net amount recognized

\$ (6,296) \$ (3,977) \$ (23,891) \$ (24,712)

1 Included in ?Accounts payable and accrued liabilities.?

2 Included in ?Postemployment benefit obligation.?

Prior service credits included in our accumulated OCI that have not yet been recognized in net periodic benefit cost were \$164 for pension and \$4,760 for postretirement benefits at December 31, 2010, and \$181 for pension and \$4,644 for postretirement at December 31, 2009.

The accumulated benefit obligation for our pension plans represents the actuarial present value of benefits based on employee service and compensation as of a certain date and does not include an assumption about future compensation levels. The accumulated benefit obligation for our pension plans was \$51,915 at December 31, 2010, and \$49,122 at December 31, 2009.

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Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income

Our combined net pension and postretirement cost recognized in our consolidated statements of income was \$3,750, \$2,253 and \$25,237 for the years ended December 31, 2010, 2009 and 2008. A portion of pension and postretirement benefit costs are capitalized as part of the benefit load on internal construction and capital expenditures, providing a small reduction in the net expense recorded.

The following tables present the components of net periodic benefit obligation cost, and other changes in plan assets and benefit obligations recognized in OCI:

Net Periodic Benefit Cost

Pension Benefits

Postretirement Benefits

2010

2009

2008

2010

2009

2008

Service cost - benefits earned during the period

\$ 1,075	\$ 1,070	\$ 1,173	\$ 348	\$ 334	\$ 429
----------	----------	----------	--------	--------	--------

Interest cost on projected benefit obligation

3,150	3,355	3,319	2,257	2,434	2,550
-------	-------	-------	-------	-------	-------

Expected return on plan assets¹

(3,775)	(3,766)	(5,808)	(943)	(784)	(1,339)
----------	----------	----------	--------	--------	----------

Amortization of prior service cost (credit)

(16)	58	133	(624)	(469)	(360)
-------	----	-----	--------	--------	--------

Actuarial (gain) loss¹

1,768	(103)	22,559	510	124	2,581
-------	--------	--------	-----	-----	-------

Net pension and postretirement cost (benefit)²

\$ 2,202	\$ 614	\$ 21,376	\$ 1,548	\$ 1,639	\$ 3,861
----------	--------	-----------	----------	----------	----------

1 Amounts for 2008 and 2009 are adjusted for the change in accounting policy as discussed in Note 1.

2 During 2010, 2009 and 2008, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 reduced postretirement benefit cost by \$237, \$255 and \$263. This effect is included in several line items above.

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income

Pension Benefits

Postretirement Benefits

2010

2009

2008

2010

2009

2008

Prior service cost (credit)

\$ -	\$ 394	\$ 17	\$ 459	\$ 1,863	\$ 2
------	--------	-------	--------	----------	------

Reversal of amortization of prior service cost (credit)

(10)	67	82	(388)	(223)	(223)
-------	----	----	--------	--------	--------

Total recognized in other comprehensive (income) loss (pretax)

\$ (10)	\$ 461	\$ 99	\$ 71	\$ 1,640	\$ (221)
----------	--------	-------	-------	----------	-----------

The estimated prior service credits that will be amortized from accumulated OCI into net periodic benefit cost over the next fiscal year is \$15 for pension and \$694 for postretirement benefits.

Assumptions

In determining the projected benefit obligation and the net pension and postemployment benefit cost, we used the following significant weighted-average assumptions:

2010

2009

2008

Discount rate for determining projected benefit obligation at December 31

5.80 % 6.50 % 7.00 %

Discount rate in effect for determining net cost

6.50 % 7.00 % 6.50 %

Long-term rate of return on plan assets

8.50 % 8.50 % 8.50 %

Composite rate of compensation increase for determining
projected benefit obligation and net pension cost (benefit)

4.00 % 4.00 % 4.00 %

Uncertainty in the securities markets and U.S. economy could result in investment returns less than those assumed. Should the securities markets decline or medical and prescription drug costs increase at a rate greater than assumed, we would expect increasing annual combined net pension and postretirement costs for the next several years. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated postretirement benefit obligation and postretirement benefit cost would be affected in future years.

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Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Discount Rate Our assumed discount rate of 5.80% at December 31, 2010, reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants. We determined our discount rate based on a range of factors, including a yield curve composed of the rates of return on several hundred high-quality, fixed-income corporate bonds available at the measurement date and the related expected duration for the obligations. These bonds were all rated at least Aa3 or AA- by one of the nationally recognized statistical rating organizations, denominated in U.S. dollars, and neither callable, convertible nor index linked. For the year ended December 31, 2010, we decreased our discount rate by 0.70%, resulting in an increase in our pension plan benefit obligation of \$3,238 and an increase in our postretirement benefit obligation of \$2,817. For the year ended December 31, 2009, we decreased our discount rate by 0.50%, resulting in an increase in our pension plan benefit obligation of \$2,065 and an increase in our postretirement benefit obligation of \$1,847.

Expected Long-Term Rate of Return Our expected long-term rate of return on plan assets of 8.25% for 2011 and 8.50% for 2010 reflects the average rate of earnings expected on the funds invested, or

to be invested, to provide for the benefits included in the projected benefit obligations. In setting the long-term assumed rate of return, management considers capital markets future expectations and the asset mix of the plans' investments. Actual long-term return can, in relatively stable markets, also serve as a factor in determining future expectations. We consider many factors that include, but are not limited to, historical returns on plan assets, current market information on long-term returns (e.g., long-term bond rates) and current and target asset allocations between asset categories. The target asset allocation is determined based on consultations with external investment advisers. If all other factors were to remain unchanged, we expect that a 1% decrease in the actual long-term rate of return would cause 2011 combined pension and postretirement cost to increase \$575. However, any differences in the rate and actual returns will be included with the actuarial gain or loss recorded in the fourth quarter when our plans are remeasured.

Composite Rate of Compensation Increase Our expected composite rate of compensation increase of 4% reflects the long-term average rate of salary increases.

Healthcare Cost Trend Our healthcare cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. In addition to the healthcare cost trend, we assume an annual 3% growth in administrative expenses and an annual 3% growth in dental claims. Due to benefit design changes (e.g., increased copays and deductibles for prescription drugs and certain medical services), we have generally experienced better-than-expected claims cost in recent years. Our assumed annual healthcare cost trend rate for 2011 and 2010 is 5.00%.

A one percentage-point change in the assumed combined medical and dental cost trend rate would have the following effects:

One Percentage-Point Increase

One Percentage-
Point Decrease

Increase (decrease) in total of service and interest cost components

\$ 312 \$ (252)

Increase (decrease) in accumulated postretirement benefit obligation

3,606 (2,973)

Prior to August 2009, a majority of our labor contracts contained an annual dollar cap for nonmanagement retirees who retire during the term of the labor contract. However, we waived the

cap during the relevant contract periods and thus did not collect contributions from those retirees. We have similarly waived the cap for nonmanagement retirees who retired prior to inception of the labor contract. We did not account for the cap in the value of our accumulated postretirement benefit obligation (i.e., we assumed the cap would be waived for all future contract periods). In August 2009, the Company announced that the annual dollar caps would be enforced for some groups beginning in 2010, with alternative uncapped plans available. We have accounted for participants moving to these alternative plans.

Plan Assets

Plan assets consist primarily of private and public equity, government and corporate bonds, and real assets (real estate and natural resources). The asset allocations of the pension plans are maintained to meet ERISA requirements. Any plan contributions, as determined by ERISA regulations, are made to a pension trust for the benefit of plan participants. We maintain VEBA trusts to partially fund postretirement benefits; however, there are no ERISA or regulatory requirements that these postretirement benefit plans be funded annually.

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Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The principal investment objectives are to ensure the availability of funds to pay pension and postretirement benefits as they become due under a broad range of future economic scenarios, to maximize long-term investment return with an acceptable level of risk based on our pension and postretirement obligations, and to be broadly diversified across and within the capital markets to insulate asset values against adverse experience in any one market. Each asset class has broadly diversified characteristics. Substantial biases toward any particular investing style or type of security are sought to be avoided by managing the aggregation of all accounts with portfolio benchmarks. Asset and benefit obligation forecasting studies are conducted periodically, generally every two to three years, or when significant changes have occurred in market conditions, benefits, participant demographics or funded status. Decisions regarding investment policy are made with an understanding of the effect of asset allocation on funded status, future contributions and projected expenses. The current asset allocation policy and risk level for the pension plan and VEBA assets are based on a study completed and approved during 2009.

The plans' weighted-average asset targets and actual allocations as a percentage of plan assets, including the notional exposure of future contracts by asset categories at December 31, are as

follows:

Pension Assets

Postretirement (VEBA) Assets

Target

2010

2009

Target

2010

2009

Equity securities:

Domestic

25% ? 35 % 29 % 34 % 37% ? 47 % 42 % 39 %

International

10% ? 20 % 15 16 29% ? 39 % 34 27

Fixed income securities

30% ? 40 % 34 30 9% ? 19 % 14 20

Real assets

6% ? 16 % 9 8 0% ? 6 % 1 2

Private equity

4% ? 14 % 12 10 0% ? 9 % 4 4

Other

0% ? 5 % 1 2 1% ? 11 % 5 8

Total

100 % 100 % 100 % 100 %

At December 31, 2010, AT&T securities represented less than 0.5% of assets held by our pension plans and VEBA trusts.

Investment Valuation

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See "Fair Value Measurements" for further discussion.

Investments in securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. If no sale was reported on that date, they are valued at the last reported bid price. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Over-the-counter (OTC) securities and government obligations are valued at the bid price or the average of the bid and asked price on the last business day of the year from published sources where available and, if not available, from other sources considered reliable. Depending on the types and contractual terms of OTC derivatives, fair value is measured using a series of techniques, such as Black-Scholes option pricing models, simulation models or a combination of various models.

Common/collective trust funds and other commingled (103-12) investment entities are valued at quoted redemption values that represent the net asset values of units held at year end which management has determined approximates fair value.

Alternative investments, including investments in private equity, real estate, natural resources, mezzanine and distressed debt, limited partnership interest, private bonds and hedge funds do not have readily available market values. These estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed, and such differences could be material. Alternative investments not having an established market are valued at fair value as determined by the investment managers. Private equity, mezzanine and distressed investments are often valued initially by the investment managers based upon cost. Thereafter, investment managers may use available market data to determine adjustments to carrying value based upon observations of the trading multiples of public companies considered comparable to the private companies being valued. Such market data used to determine adjustments to accounts for cash flows and company-specified issues include current operating performance and future expectations of the investments, changes in market outlook, and the third-party financing environment. Private equity partnership holdings may also include publicly held equity investments in liquid markets that are marked-to-market at quoted public values, subject to adjustments for large positions held. Real estate and natural resource direct investments are valued either at amounts based upon appraisal reports prepared by independent third-party appraisers or at amounts as determined by internal appraisals performed by the investment manager, which has been agreed to by an external valuation consultant. Private bond valuation is based upon pricing provided by an external pricing service when such pricing is available. In the event a security is too thinly traded or

narrowly held to be priced by such a pricing service, or the price furnished by such external pricing services is deemed inaccurate, the managers will then solicit broker/dealer quotes (spreads or prices). In cases where such quotes are available, fair value will be determined based solely upon such quotes provided. Managers will typically use a pricing matrix for determining fair value in cases where an approved pricing service or a broker/dealer is unable to provide a fair valuation for specific fixed-rate securities such as many private placements. New fixed-rate securities will be initially valued at cost at the time of purchase. Thereafter, each bond will be assigned a spread from a pricing matrix that will be added to current Treasury rates. The pricing matrix derives spreads for each bond based on external market data, including the current credit rating for the bonds, credit spreads to Treasuries for each credit rating, sector add-ons or credits, issue specific add-ons or credits as well as call or other options.

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Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

Purchases and sales of securities are recorded as of the trade date. Realized gains and losses on sales of securities are determined on the basis of average cost. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

Non-interest bearing cash, temporary assets and overdrafts are valued at cost, which approximates fair value.

Fair Value Measurements

See Note 9 "Fair Value Measurements and Disclosure" for a discussion of fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Notes to Consolidated Financial Statements (continued)

Dollars in millions except per share amounts

The following table sets forth by level, within the fair value hierarchy, the pension and postretirement assets and liabilities at fair value as of December 31, 2010:

Pension Assets and Liabilities at Fair Value as of December 31, 2010

Level 1

Level 2

Level 3

Total

Non-interest bearing cash

\$ 100	\$ -	\$ -	\$ 100
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Interest bearing cash

-	74	-	74
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Foreign exchange contract

-	57	-	57
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Equity securities:

Domestic equities

9,692	16	-	9,708
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International equities

4,960	4	-	4,964
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Fixed income securities:

Asset-backed securities

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